



Executive Summary

ASSESSMENT OF THE IMPACT OF COVID-19 ON THE BUSINESS SECTOR AND THE GROWTH PROSPECTS OF THE MONTENEGRIN ECONOMY

Prepared by UNDP with contributions from UNESCO and UN Women

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October 2020

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I. INTRODUCTION

Why an impact assessment?

The Report analyses the impact of COVID-19 on micro, small, and medium enterprises, and entrepreneurs (MSME&Es) in Montenegro. It provides recommendations to the government, the business sector, and other relevant stakeholders in Montenegro on how to effectively overcome the negative impact of the COVID-19 on its economy.

The objective of this report is threefold. Firstly, it gauges the negative impacts of COVID-19 on MSME&Es to facilitate dialogue about adequate mitigation measures to overcome this shock, the extent and depth of which are being only gradually revealed and understood.

Secondly, it identifies bottlenecks caused by COVID-19, the MSME investment needs and gaps in critical sectors that will contribute to the resilience of the economy and its ability to cope with the current and any future crisis.

Thirdly, the Report aims to identify opportunities to accelerate structural systemic reforms. Within this analysis it emphasizes two key accelerators of green transition (decarbonization) and digital transformation as a focus for a post-crisis economic development stimulus in order to build the resilience of the economy to future shocks.

II. METHODOLOGICAL FRAMEWORK

The modified Post-Disaster Needs Assessment (PDNA) methodology used in the Report formulation consisted of the following:

- **The desk review** gives a brief overview of the structure of the economy, including indications of informality, the measures implemented by the EU and the countries in the region and Montenegro, as well as an overview of policies related to green business incentives and the role of digital transformation in recovery. The Report is substantiated by data received from Montenegro's Tax Administration and the Investment and Development Fund, the Ministry of the Economy, and different documents produced by UN agencies, such as: UNDP and UN Women research on the 'Care Economy and Women Empowerment'; the ILO's 'Covid-19 and the World of Work: Rapid Assessment of the Employment Impacts and Policy Responses' prepared in cooperation with the Montenegrin Employers Federation; UN's Rapid Social Impact Assessment and UNESCO's 'Socio-Economic Impact Assessment of Covid-19 on the Cultural Sector in Montenegro'; with all of them offering additional aspects of the impact on the economy, social welfare and assistance, employment, cultural institutions, etc. The IMF's and World Bank's recently published reports and other independent analyses are also taken in consideration.
- **Quantitative data: The Report's analysis was informed by the results of the primary data collection** through the MSME&E survey conducted in May and again in September on a representative sample of over 300 companies, and collection of additional data through a boosted sample of additional 141 companies conducted in June. This boosted sample has been defined with the support of the Chamber of Economy and includes companies from the most vulnerable sectors: tourism and related activities (hotels, restaurants and bars, agencies and tour operators, etc.), and the processing industry with a special focus on food processing and on retail.

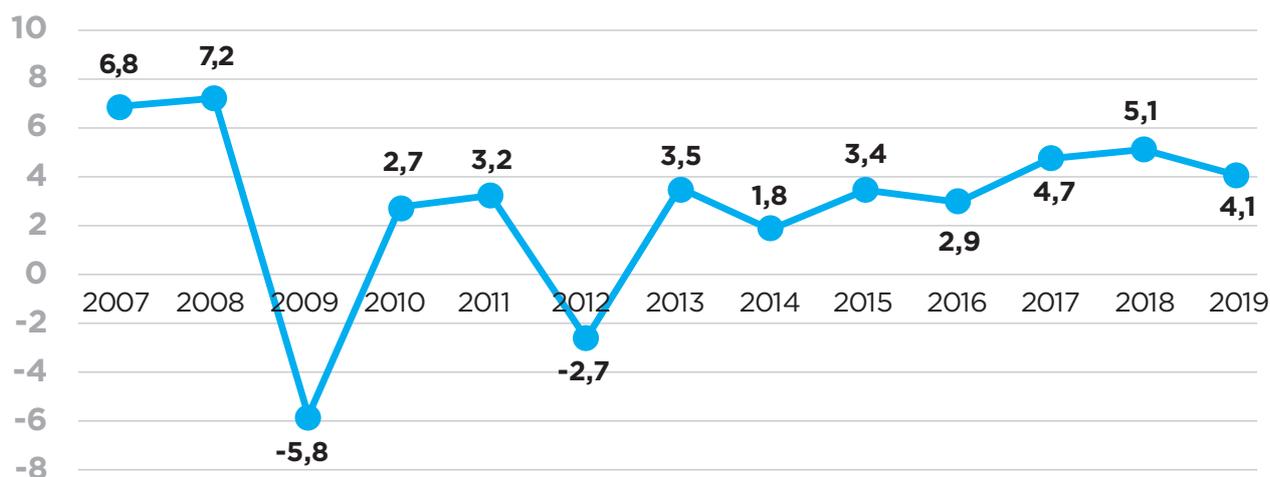
- The representative sample included companies from the most important sectors of the economy to assess:
 - the impact of the crisis on the business activity of economic entities;
 - measures taken by economic entities to combat the crisis;
 - the effectiveness of the currently available economic policy support; and
 - economic development and growth opportunities.
- **Qualitative data** collection through 10 in-depth interviews to identify the needs of MSMEs in the most vulnerable sectors of the economy.

Based on such data, a set of more general and very specific recommendations were developed in order to help mitigate the impact of COVID-19. The recommendations are organized along three phases: Phase 1 (up to 6 months), Phase 2 (6-18 months) and Phase 3 (18 months-4 years).

III. MACROECONOMIC CIRCUMSTANCES BEFORE THE COVID-19 CRISIS

The World Bank estimated GDP growth for Montenegro in 2019 at 3% and then in 2020 at 2.8%. The pre-crisis period was characterized by positive growth rates with certain fluctuations, due to the sensitivity of a small market economy.

Graph 1. Pre-COVID-19 GDP growth rates (in %)



Source: MONSTAT (www.monstat.org)

Prior to the COVID-19 pandemic, Montenegro had already faced economic slowdown in 2019, driven by the lower domestic demand. The trend of the real GDP growth from 2018 of 5.1% did not continue in 2019, given that the data from Montenegro’s Statistics Office (MONSTAT) indicates that the figure for that year stood at 4.1%.

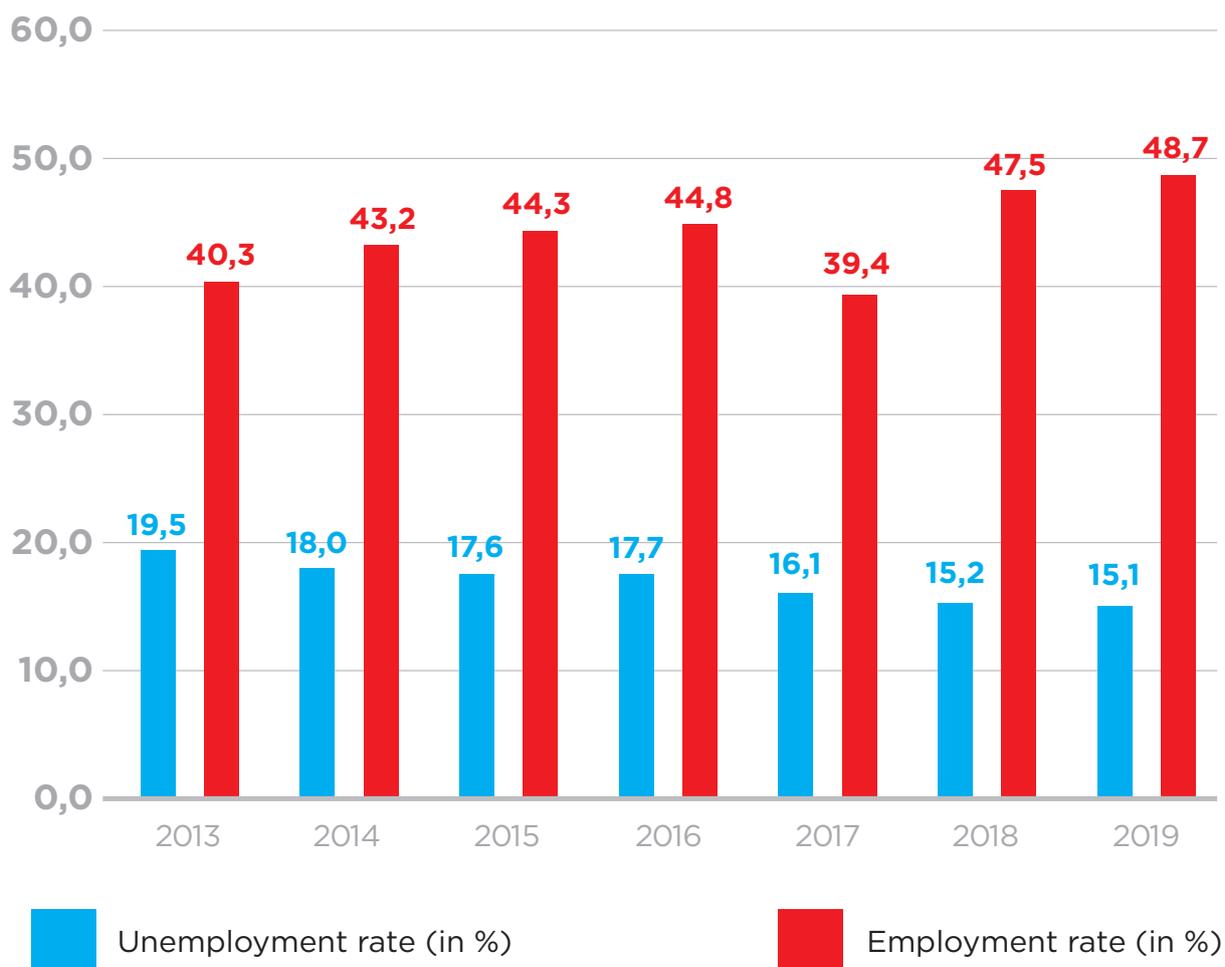
Montenegro entered the COVID-19 crisis with the continued trend of the number of unemployed hovering slightly above 15% (35,429 people or 15.34% based on the data from the National Employment Office)¹.

In 2019, employment increased by 2.6%, mainly in construction, tourism and retail, and participation and employment rates reached the record-breaking levels of 57.4% and 48.7%, respectively.

The declining unemployment rate has been a feature of Montenegro’s performance since 2013.

¹ Employment Agency data, 13 March 2020.

Graph 2. Unemployment and employment rates (in %)



Source: MONSTAT (www.monstat.org).

According to the 2019 Labour Force Survey (LFS), the average unemployment rate reached 15.1%, i.e. the number of unemployed persons was 37,176 and slightly lower than the previous year's rate (by 0.1 pp).

However, when this positive trend is cross-referenced with the structure of paid wages, two indicative although not final (due to the methodological problems) findings stand out:

- 1) the median salary below €400 (meaning that 60% of salaries are under €400) is significantly lower than the average salary; and
- 2) according to the report team's review, the number of employees receiving salaries ranges from around 160,000 employees to around 170,000 with the numbers tending to increase in the summer months (Source: calculations based on the submitted tax returns, the Tax Administration).²

In addition, according to MONSTAT's monthly reports, if we compare the number of employees in March, April and July 2019 with those in March, April and July 2020 respectively, we notice a significant decline. Thus, the decline in March 2020 was 5%, compared to March 2019, in April 2020 close to 8%, while it reached a level of 19% in July, and 18% in August compared to the previous year. According to MONSTAT data, many other indicators (particularly visitor arrivals, import-export, and internal trade) are deteriorating, while industrial production is recovering following a period of decline.

² These figures are obtained from the so-called IOPPD forms filed with the Tax Administration, which cannot be a reliable indication for estimating the number of employed. Further data analysis and development of a specific methodology are needed to calculate the official salary median.

Table 1: Number of employees, March–April–August 2019–2020

Period	Number of employees	Period	Number of employees	Change
March 2019	197.594	Mart 2020.	187.251	5,23%
April 2019	200.595	April 2020.	184.607	7,97%
July 2019	215.181	Jul 2020.	174.170	19,1%
August 2019	210.456	Avgust 2020.	172.154	18,2%

Source: MONSTAT (www.monstat.org).

At the same time, the Labour Force Survey data for the same period indicates that there were 243,800 employees³. Comparison of the Labour Force Survey, the administrative sources of employment data, and the submitted tax returns, among other things, suggests a high level of informality in the labour market. The combined data of the median salary and the breakdown of employees from the two sources suggest the possible strong impact of the COVID-19 epidemic on the labour market and the vulnerabilities of those in employment, with a possible growth of poverty as a direct implication.

As a result of the consolidation efforts in the past years, **Montenegro's fiscal position** before the COVID-19 crisis was better than it was two years ago. Continuous fiscal consolidation has reduced the fiscal deficit from 4.6% of GDP in 2018 down to 3% in 2019. However, growing public debt (reaching 77% of the GDP at the end of 2019) imposed the need for further adjustments, which the COVID-19 crisis will only amplify.

When it comes to the **banking sector in 2019**, it recorded the continuation of positive trends. Total deposits, which amounted to €3,452.4 million, increased by 1.0% on an annual basis, while lending increased by 4.5% y-o-y, mainly to households. As two banks were liquidated at the beginning of the last year, deposits recovered, rising by 0.5% in 2019. In December 2019, non-performing loans (NPL) fell to 5.1% of total loans and their share in the total decreased by 1.2 pp on an annual basis.

External imbalances have lessened as lower tourism receipts are starting to reverse this trend in 2020. As the trade deficit shrank, the current account deficit (CAD) narrowed from 17% of GDP in 2018, to 15.2% in 2019. The strong tourist season boosted exports in 2019, but imports grew much more slowly. The primary account shrank as remittance inflows remained at between 5% and 10% of GDP, depending on the calculation methodology. Net foreign direct investment (FDI) covered almost half of the CAD; the rest was mostly financed by external debt. In December 2019, foreign reserves covered 6.3 months of essential imports.

Nevertheless, despite solid growth rates, it should be noted that **the level of GDP is still 50% of the EU average purchasing power**, while according to the standard of actual consumption expressed in terms of purchasing power, it is 60% of the EU average⁴. This indicates that the income-catching process has been relatively slow. Even the relatively small growth of the EU average level of GDP, although from a higher basis, leaves this income gap quite sizeable.

IV. MONTENEGRO DURING THE COVID-19 CRISIS

The first case of COVID-19 in Montenegro was publicly confirmed on 17 March 2020. The pandemic had been declared six days earlier, and the economic consequences of the health and economic crisis could only be vaguely anticipated. Most countries introduced social distancing measures. Numerous activities were suspended, and schools closed on 16 March. In that way,

³ In methodological terms, the Labour Force Survey records any work over the period observed, even for a single hour.

⁴ Eurostat estimates for 2019, reproduced by MONSTAT in June 2020, www.monstat.org.

during the first wave the health system was not faced with the risk of being overwhelmed, while this experience is important for helping to prepare for a second wave.

As a result of the preventive measures, many employers have encountered difficulties in sustaining their operations. Companies are clearly facing declining productivity due to lower demand, a lack of financial resources, and a lack of employees. Some were forced to suspend their operations altogether and maintain liquidity using reserves. Montenegro's growth was expected to be moderate, but the predictions are that the crisis will drive the economy into recession, primarily due to a decline in tourism, which has a multiplier effect on all the other sectors. **In the new circumstances, depending on the effects of the tourist season, the economic downturn in 2020 was earlier estimated by the World Bank to be in the range of -5.6% to -8.9%, while the most recent estimates from this October set the decline at 12.4%.⁵** In the worst-case scenario, up to 75% of jobs will potentially be affected by social distancing measures.

COVID-19 is affecting the economy through a variety of channels, among them the underutilization of human and physical capital, lower commodity prices, fewer visitors, and disruptions in international trade, capital outflows from emerging markets, credit rationing, and higher uncertainty.

Montenegro is particularly affected by plummeting tourism, which is the critical driver of growth: tourism receipts account for more than 20% of GDP. According to MONSTAT data, following economic growth of 2.7% in the first quarter, in the second quarter Montenegro recorded a decline of 20.2% which is among the highest rates of decline in Europe. The country's lack of a currency-issuing function, limited fiscal buffers, and high public debt amplify its vulnerability. The level of public debt limits the fiscal space for responding to the crisis, and with a high deficit its dependence on external financing is even more significant.

The COVID-19 crisis is once again showing that **preserving (medium-term) macroeconomic and financial stability is the key to improving resilience to economic shocks, and that such stability is a necessary condition for maintaining high growth** in the medium term.

Table 2. Scenarios from different institutions about Montenegro's GDP growth prospects

	ERP 2020-2022, pre-COVID-19 scenario		IMF ⁶ 8 April	World Bank 29 April 2020 ⁷	European Commission 6 May 2020 ⁸	EBRD 12 May 2020 ⁹
	Baseline	Downside				
2018	5.1					
2019	3.5	3.1	3.6	3.6	3.6	3.1
2020	3.4	1.4	-12.0	-12.4	-5.9	-8.0
2021	2.8	1.5	5.5	6.9	4.4	10

The severity of the crisis was visible almost immediately. From the outbreak of the crisis to 30 April, the number of unemployed increased from 35,429 to 40,361, representing a current unemployment rate of 17.4% based on the National Employment Office's methodology, where a larger share of women applied for support. Additionally, MONSTAT is registering approximately 41,000 fewer employed in July 2020 than in July 2019, and in August some 38,000 fewer than

5 WORLD BANK ECA ECONOMIC UPDATE, FALL 2020, COVID-19 and Human Capital <https://openknowledge.worldbank.org/bitstream/handle/10986/34518/9781464816437.pdf>.

6 www.imf.org, October country update.

7 WORLD BANK ECA ECONOMIC UPDATE FALL 2020, COVID-19 and Human Capital <https://openknowledge.worldbank.org/bitstream/handle/10986/34518/9781464816437.pdf>.

8 EC, Spring 2020 Economic Forecast: A deep and uneven recession, an uncertain recovery, 6 May 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf.

9 The fall of 8% is because half of the tourist season is expected to be affected by the COVID-19 pandemic. (EBRD, Regional Economic Prospect Report, April 2020); given the significantly poorer outcome of the tourist season, an even steeper downturn is to be expected. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395290493496&d=&pagename=EBRD%2FContent%2FDownloadDocument>.

the previous year due to the poor tourist season¹⁰. Additionally, Labour Force Survey data for the second quarter of 2020 shows, in comparison to the second quarter of 2019, a significant increase in inactivity for approximately 22,000 people (6,000 women and 16,000 men while, overall, women remain considerably more inactive with 135,000 compared to 99,000 men).

The deterioration of the economic situation implies the risk of rising poverty. The poverty reduction trend may be reversed, bringing back similar poverty levels from 2015 or even 2013. The World Bank's estimate is that the poverty rate, depending on the duration of the crisis, may grow by 1.5–3 percentage points, i.e. the poverty rate might reach 20.4%.

Micro, small, medium enterprises, and entrepreneurs are most at risk, given that they usually have the least liquidity and lowest margins of return, not only in Montenegro, but also globally. Due to the suspension of work caused by the COVID-19 pandemic, their position is particularly vulnerable. All countries, including Montenegro, have continuously taken measures to reduce the impact of the current circumstances on their economic system; subsidies for employee earnings was one of the most frequent measures, both in the Western Balkans and in other European countries.

V. COUNTRY RESPONSE TO COVID-19

Facing the economic consequences of COVID-19, the government has adopted measures to help mitigate the economic and social impacts. These measures followed the general recommendations of international financial organizations, such as the IMF, which, following the outbreak containment measures, focus on the actions of monetary authorities, governments, and financial regulators. With three packages of measures, the government has supported and continues to support the economy through a set of financial, tax and other measures.

Table 3: Policies and measures issued to support enterprises to resume production amid the outbreak

Policy category	Main content	Key points (measures)
1. Financial Support	Encourage relevant entities to provide preferential loans, approve loan extensions, and lower interest rates	<ul style="list-style-type: none"> Deferred repayment of loans to individuals and businesses with all banks, microcredit institutions, and the IDF for 90 days, all types of loans, including cash loans (secured and unsecured) Creating a new line of credits by the IDF for MSMEs Subsidies (for closed sectors; for the tourist industry; for affected industries – entrepreneurs and MSMEs in industries that were not suspended, but saw a reduced volume of activity because of the measures imposed by the Ministry of Health were aimed at containing the outbreak; for new employment)
2. Taxes, custom duties	Reduction and deferral for payroll taxes	<ul style="list-style-type: none"> Postpone payment of taxes and contributions on salaries for 90 days, linking further on to the second package of measures and industry subsidies Reduction of the VAT refund deadline and extension of the customs guarantee exposure limit period for deferred payment of customs debt
3. Preferential Social Insurance Policies to Support the Resumption of Work and Production	Social measures	<ul style="list-style-type: none"> Subsidies for earnings of employees on paid leave Subsidies for earnings of employees who are quarantined or in isolation Suspension of enforcement, for the purpose of socio-economic protection of entities whose operation is suspended by the NCB's decisions One-off financial assistance of €50 for registered unemployed persons

¹⁰ The data was collected from administrative sources, not from the Labour Force Survey.

4. Services and support	Support to domestic producers and specific industries	<ul style="list-style-type: none"> ▪ Support for media outlets ▪ Special measures to support agriculture and fisheries ▪ New IDF credit lines for agricultural producers and fishers ▪ One-off assistance for farmers and fishers ▪ According to the decision of the Chamber of Economy's Assembly, companies and entrepreneurs which had to suspend their operations due to the Ministry of Health's COVID-19-related decree or whose operations were severely constricted due to the outbreak were granted a temporary waiver from 1 April until 30 June 2020 from payment of membership fees
5. Bill reduction	Electricity bill reduction	<ul style="list-style-type: none"> ▪ National Electric Power Company EPCG – exemption from the fixed part of the electricity bill for the months of April, May, and June – which will not be charged to users in suspended activities

The first package of measures to help the economy and citizens, which the government estimated at €100 million (mostly a new IDF credit line), was adopted in mid-March, primarily related to liquidity support. Under this package, **affected** companies and entrepreneurs in the formal economy were granted a three-month deferral of the payment of personal income tax and contributions for compulsory social insurance. Also, credit support for companies was provided through the Investment and Development Fund (IDF), and a three-month moratorium on the repayment of loans citizens and businesses held with commercial banks. The first package also included additional one-off direct financial assistance for low-income pensioners and family cash allowance beneficiaries worth €1 million. Over 20,000 citizens and their families received this help.

The total fiscal effect of the measures from **the second package** adopted on 24 April was estimated to be worth €75 million gross. Its net worth is €46 million¹¹ for a period of three months. One of the key measures included in this package is a subsidy for employee earnings in sectors whose operations were suspended (hospitality, services, transport, and tourism), amounting to 100% of the gross minimum wage. They will receive a €222 net salary for April and May, with full coverage of taxes and contributions, or €143 in the case of the minimum wage. The proposed measures include subsidies for vulnerable businesses (entrepreneurs, micro, small, and medium enterprises with up to 250 employees) for April and May, amounting to 50% of the gross minimum wage for each registered employee. The amount of this subsidy is €111 for net salaries and €71.50 for taxes and contributions. Unemployed persons who are not beneficiaries of unemployment benefits or family cash allowance received one-time assistance of €50. All companies whose operations were suspended by the government measures introduced to contain the spread of the virus will be exempted from paying their electricity bills in April, May, and June. At the same time, the national power company (EPCG) has doubled the electricity subsidies to socially vulnerable households while the measures are in progress. Within the second package of measures, allocations worth €17 million are planned for agriculture and fisheries.

From May until the end of June, over 64,000 workers benefited from gross subsidies of €33.2 million. Nevertheless, the announced continuation of the subsidy scheme in line with epidemiological developments at a municipal level under the so-called "traffic light"¹² methodology means that this amount can be much higher. In addition, by 30 June 2020, the IDF had approved 397 loans (1,109 applications in total, regardless of their validity or eligibility) worth in total €73.4 million and defined 836 moratoriums on previously approved loans worth €160.7 million. Thus, the support from these

11 The net worth of the second package is equal to the difference between the gross worth of measures and the total amount of the country's subsidies for taxes and contributions on earnings.

12 The methodology according to which certain containment measures are introduced depending on the cumulative incidence levels in specific municipalities. It has been applied since the end of September.

two sources, before the third package was introduced, was at the level of about 2.5% of GDP¹³ excluding the IDF moratorium, and with the anticipated support to the agriculture sector and with additional subsidies for affected sectors, these sources combined could result in support of about 4% of GDP. At the same time, payroll taxes for almost 10,000 employees amounting to over €45.1 million were deferred¹⁴. Interestingly, the wage subsidy measures probably spurred the process of filing tax returns, as the number rose from some 104,000 for the month of April filed by mid-May, to 133,000 in mid-June.

The third package of socio-economic measures was adopted by the Government of Montenegro on 23 July 2020¹⁵. This package included both short-term and medium-to-long-term measures.

Short-term measures

- Measure 1: Support for tourist businesses
- Measure 2: Favourable credit lines
- Measure 3: Support for industry
- Measure 4: Subsidies for employee earnings
- Measure 5: Grants for businesses
- Measure 6: Defined investment breakdown and schedule by sector
- Measure 7: One-off support for vulnerable groups
- Measure 8: Creating additional fiscal space

Medium-to-long-term measures

- Reinforcing IT businesses
- Support for the tourist industry
- The concept of quick breakthroughs in agriculture and fisheries
- Economic measures for recovery and development
- Support for the transport industry

The short-term measures are intended to secure: support for the tourist industry of an amount of €83.5 million; incentives for investments in agriculture and fisheries totalling €89.4 million; improved competitiveness through 17 programme lines and providing €10 million in grants in 2020 alone; support for industry by providing subsidies for employee earnings, including the tourist industry, of a total amount of €16.2 million¹⁶ and support for the most vulnerable groups in society of an amount of €1.8 million. Likewise, this package has included loan rescheduling and a VAT rate reduction from 21% to 7% on preparing and serving food and non-alcoholic beverages in all hospitality establishments for one year. In addition, the most vulnerable groups of people will receive a one-off allowance of €200, while the lowest pension benefits will increase by 13%, retrospectively from 1 January 2020. The third package of measures includes also: additional 10% cuts of current non-investment spending for all budget users and state funds; downsizing the public administration fleet of vehicles, limiting the number of persons entitled to the use of official cars, and the sale of

13 The provisional 2020 GDP estimate is set at €4.3 billion. This estimate is based on the fact that the actual GDP for the first half of the year was €1.8 billion, and that it is realistic to expect a decline in the third quarter of a similar amount as in the second quarter due to considerably lower tourist turnover, and on the assumption of no oscillations in the fourth quarter. GDP of €4.3 billion compared to €4.9 billion in 2019 would mean an annual decrease of 12-13%.

14 It should be borne in mind that the economic support measures stimulated taxpayers to file overdue returns in order to be eligible for the support.

15 The total fiscal effect of the third package of measures, involving direct support to businesses, investments from the budget and state-owned companies, as well as favourable credit arrangements secured with the IDF and commercial banks intermediated by the government for the period 2020-2024 is estimated at €1.2 billion, provided that to a large extent it contains already planned public investments with the aim of maintaining investment spending, and thus restoring GDP growth.

16 The financial resources available under this heading are bound to be even greater, given the additional support to be based on the so-called "traffic light" methodology where the outbreak trends are measured at the municipal level and classified according to the cumulative incidence, and depending on any suspension of business activity additional subsidies will be allocated.

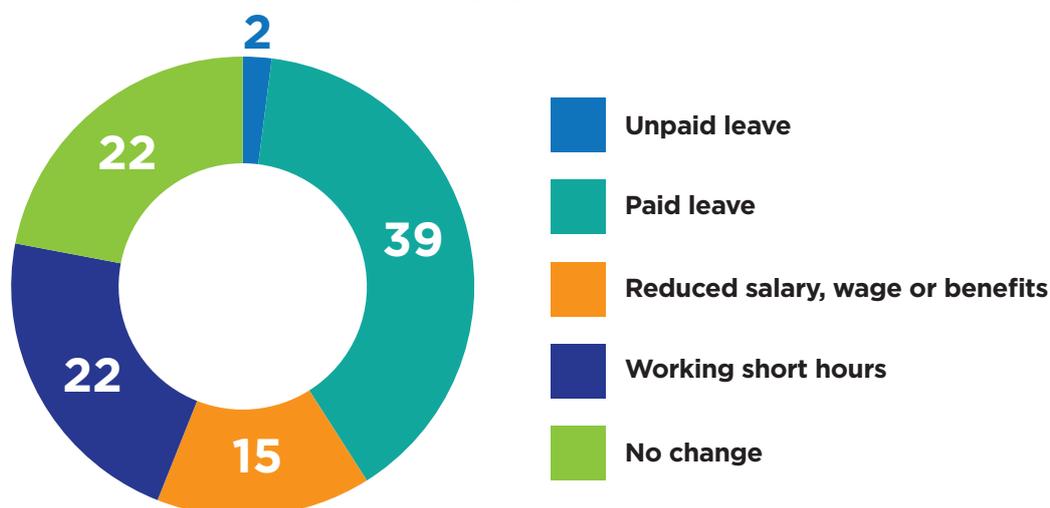
a share of the existing fleet; and salary reductions in state-owned companies. Through a budget revision to support industry with the third package of measures, the government secured €70 million with the Council of Europe Development Bank (CEB) to be provided directly to commercial banks, as well as guarantees for arrangements between the European Investment Bank (EIB) and commercial banks in the amount of €50 million. The banks are supposed to match the amount with their loan portfolios, i.e. approx. €120 million, thus making the total of some €240 million available to businesses.¹⁷

VI. MAJOR FINDINGS ON IMPACT OF COVID-19

Changed working hours and falling revenues

According to the data from the MSME&E survey, the pandemic has led to **changes in the work regime for more than three-quarters of employees** since 15 March, who primarily had to go on paid leave or adopt a part-time work regime. Seventeen percent of MSME&Es either sent their employees on unpaid leave or reduced their salaries and other benefits. **After 1 June, two-thirds of employees had no changes in their work regimes**, while among those who did, 41% worked short hours, and 23% were on paid leave. Fewer companies hired seasonal workers.

Graph 3. Impact of COVID-19 on the working regime on 15 March (in %)



Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020, commissioned by UNDP

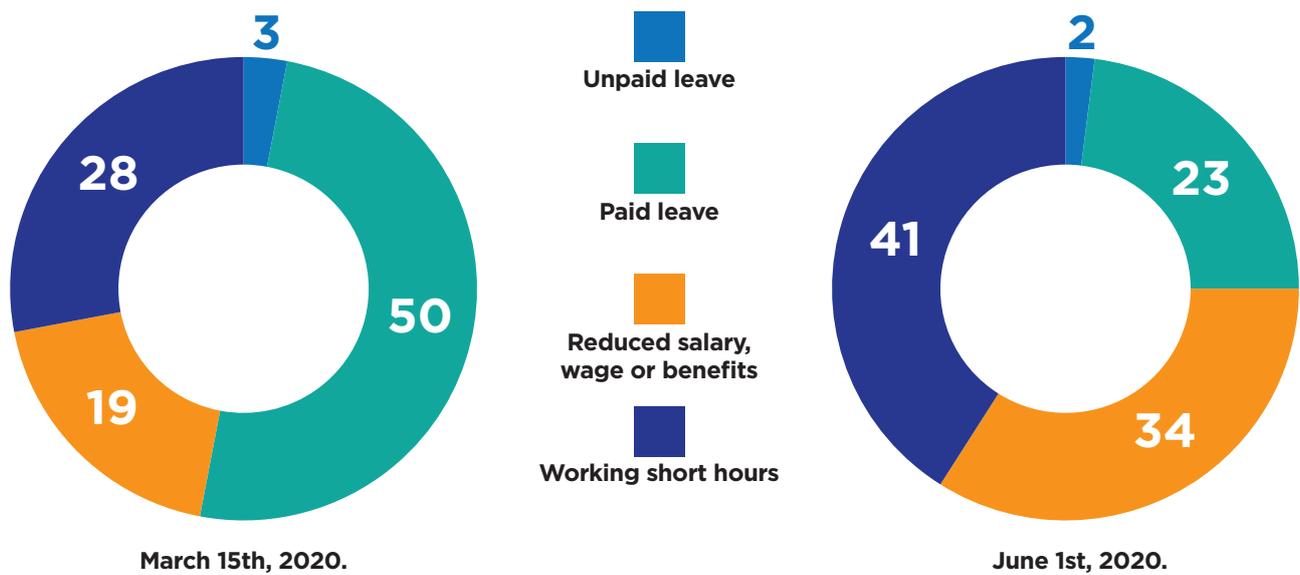
Graph 4. Impact of COVID-19 on the working regime on 1 June (in %)



¹⁷ Commercial banks offered interest rates ranging from 1.99% to 7% for loans to businesses. According to the Information Brief adopted by the government on 20 August, 11 banks submitted offers (CKB, Podgorička, Hipotekarna, Erste, Lovćen, Prva, Adiko, Adriatik, Univerzal, Zapad and Komercijalna), while at the time it was still unknown whether NLB and Zirat banka would give their offers. The actual facility to be provided by each bank will be known once the Ministry of Finance has approved the final list. The banks are supposed to repay the money provided by the government within 7 years, with a 2-year grace period.

Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

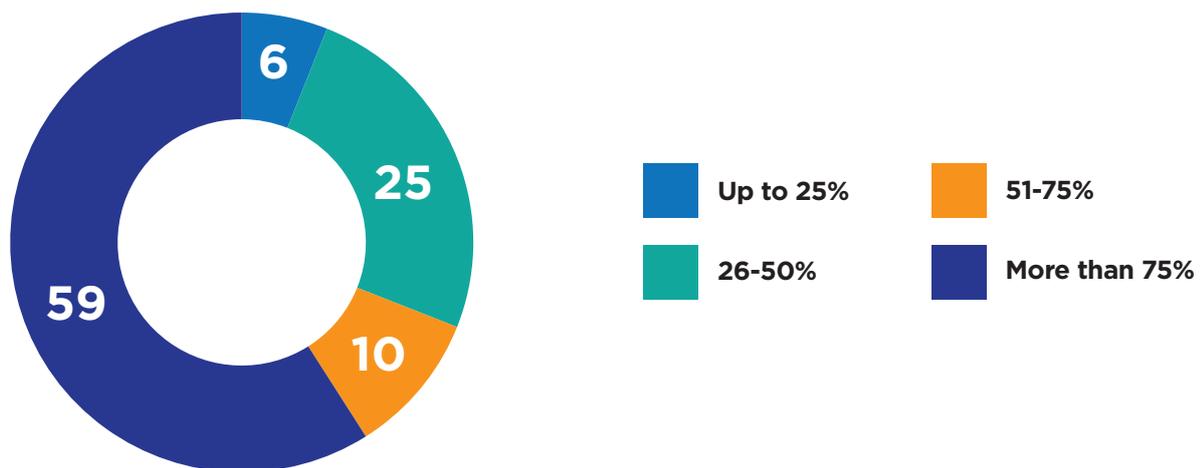
Graph 5. Changes to the working regime on the account of COVID-19 - 15 March and 1 June (in %)



Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, May 2020 and September 2020, commissioned by UNDP

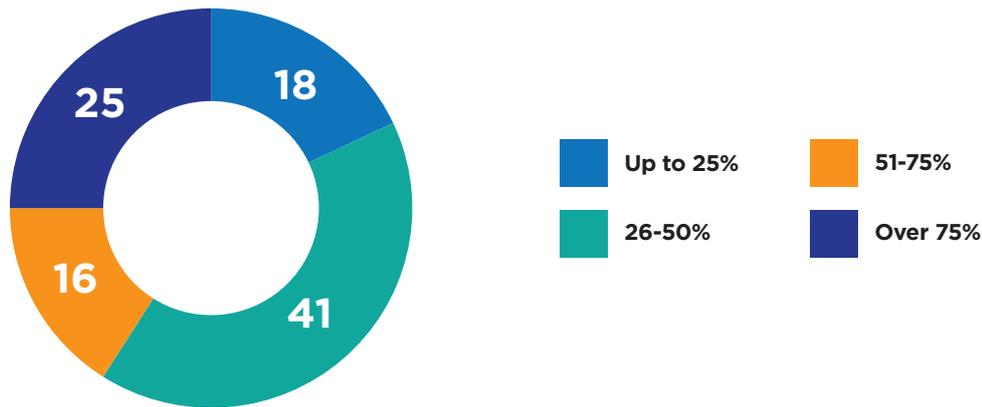
The impact of the crisis is further reflected in falling sales and rising losses. Specifically, among companies that had lower sales compared to the same period in 2019, as shown by the survey conducted in May, more than half of them have over 75% lower sales compared to the same period a year ago, while four out of 10 companies have had a 100% reduction in sales. Losses of over 75% are mostly present in service companies. The survey conducted in September showed persistent high shares of companies recording reductions in sales, amounting to up to 25% for close to three in five companies (18%), and to up to 50% for 41% of them.

Graph 6. Reduced sales over the period March–April 2020 compared with the same period in 2019 (in %)



Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, May 2020, commissioned by UNDP

Graph 7. Reduced sales over the period June–August 2020 compared with the same period in 2019 (in %)

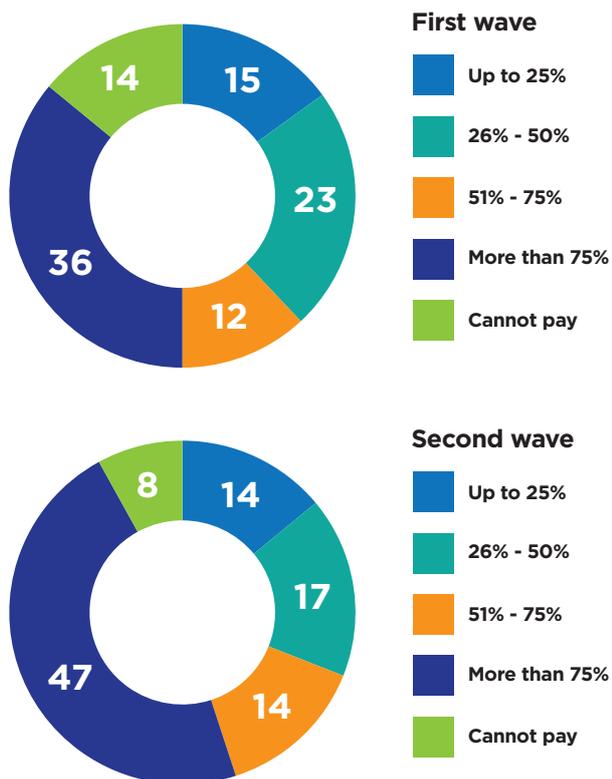


Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

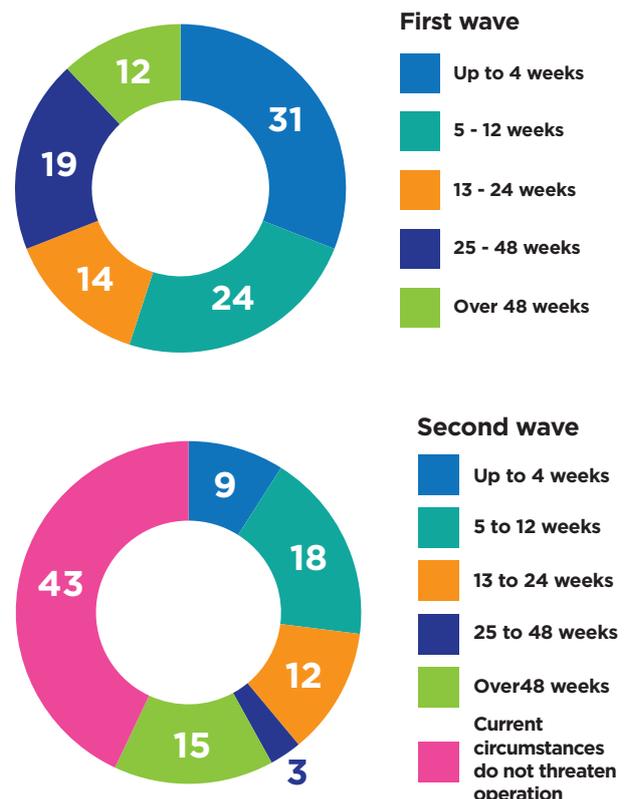
Struggling to pay liabilities and to remain afloat

Furthermore, during the month of May more than one-third of companies state that they can repay over 75% of their short-term liabilities, as well as long-term debts and financial liabilities in the next month. **However, 29% report that they either cannot meet any of their liabilities or can only meet up to 25%. Almost one-third of them estimate that they can work for another four weeks, while one-quarter state a period from one month to three months.** The forecasts of companies in the southern region were particularly negative, due to the expected poor tourist season. Close to 55% of them estimated that they would be able to work for a maximum of 12 weeks under the circumstances prevailing at the time, suggesting a severe liquidity issue. The situation concerning the ability to pay liabilities improved somewhat in September compared with May. Nevertheless, 22% of companies still report an inability to pay their liabilities or being able to settle no more than 25% of such liabilities.

Graph 8. Level up to which a company can pay off its current short-term liabilities with current assets (in %)



Graph 9. Number of weeks for which a company can remain open in the current circumstances (in %)



Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020 and September 2020, commissioned by UNDP

Reduced demand caused by the lockdown and the collection of receivables were assessed as the biggest and at the same time the most significant challenges that Montenegrin companies have been facing during the COVID-19 pandemic.

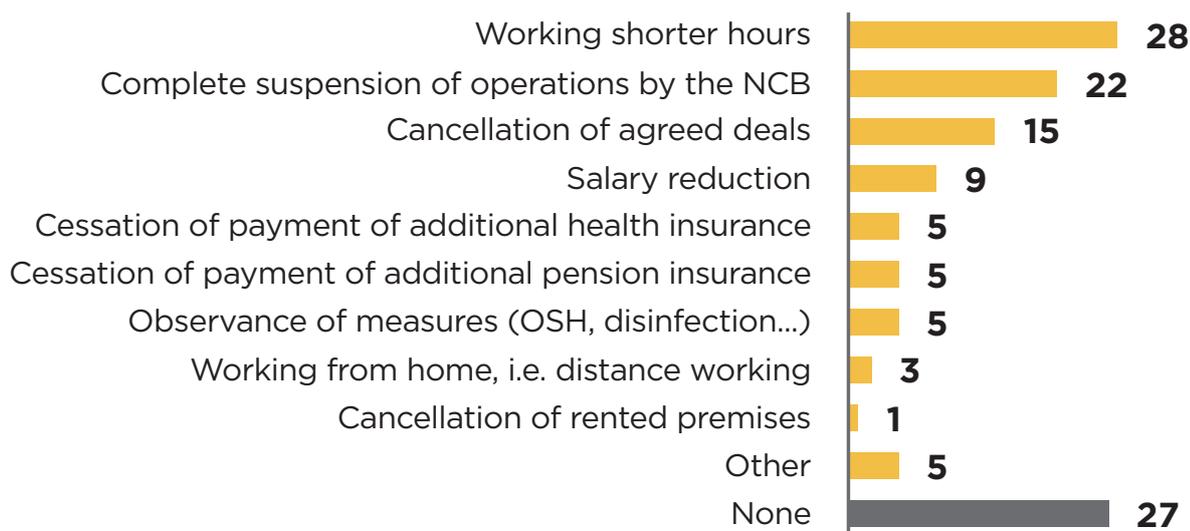
The problems with illiquidity, if prolonged, will potentially trigger the subsequent insolvency of many companies. Procurement of raw materials and resources stands out as the biggest challenge, especially among manufacturing companies and companies in the north. In addition, companies in the north are significantly more likely to point out problems with reduced cash flow, which prevents them from performing regular operations, while companies in the central region are especially struggling with the costs of pandemic prevention and control. Furthermore, trading companies have a greater problem with disrupted supply chains, as well as with interruptions in delivery or procurement, compared to the total number of companies.

In order to achieve the most efficient adjustment and cope with the emerging crisis, companies in Montenegro have taken various measures and changed certain aspects of their business model. In response to the COVID-19 crisis, during the month of May, 28% of **companies primarily decided to shorten their working hours or their operations were completely suspended** (22%) in the light of the health safety measures introduced by the National Coordination Body for Communicable Diseases. However, over one-quarter of the companies stated that they had not made any adjustment decisions in response to the COVID-19 crisis.

Furthermore, **companies changed certain elements of their business model, primarily reducing the volume of work, taking loans, or using savings**. However, over 22% of the companies have completely ceased operations, while 4% are considering closing their businesses.

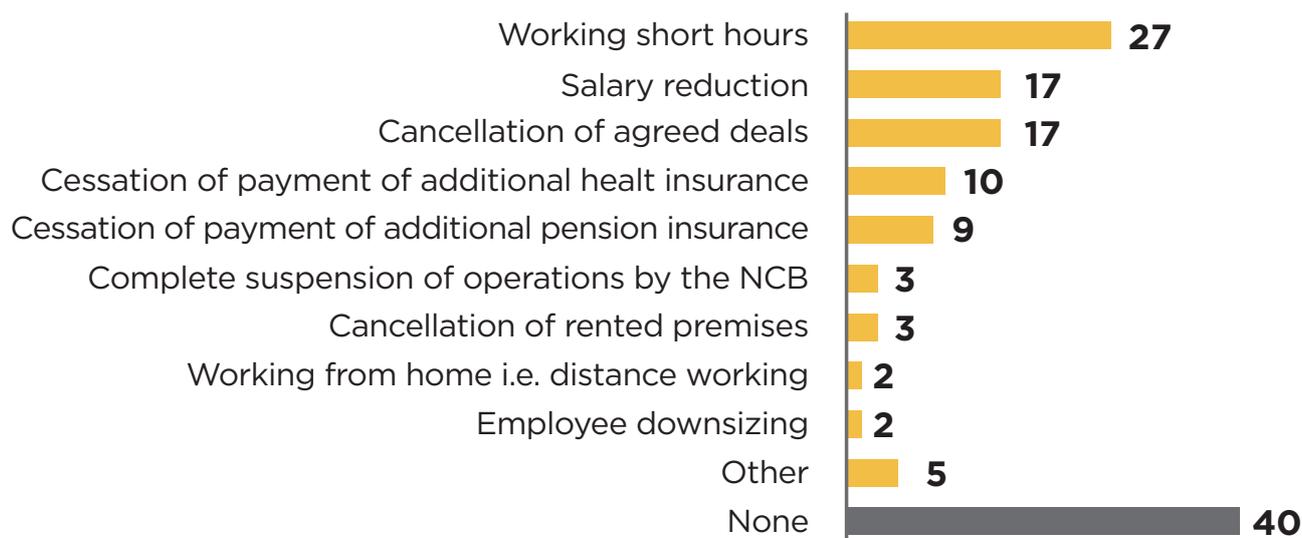
In September, companies still reported working short hours (27%), while salary reductions and cancelling agreed deals were each reported by 17% of the respondents. Companies are still reluctant to downsize staff; rather, salaries and benefits are reduced, and there are fewer job opportunities available, which increases the inactivity rates.

Graph 10. The first decision companies made, or the actions taken in response to the COVID-19 crisis over the period March–April 2020 (in %)



Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020, commissioned by UNDP

Graph 11. Decisions companies made, or the actions taken in response to the COVID-19 crisis over the period March-August 2020



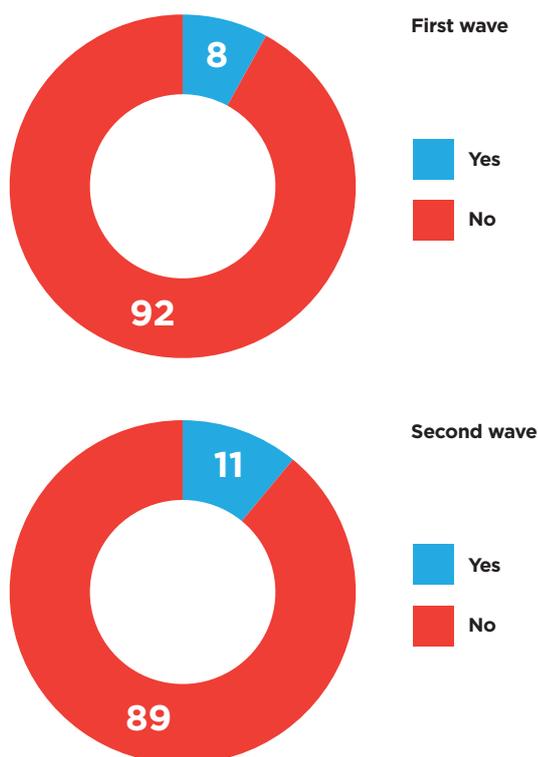
Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

In addition, **during the first wave companies took various measures vis-à-vis their suppliers, consumers, and customers.** In particular, most companies (71%) procured protective equipment to work with suppliers, and a significant number negotiated with suppliers to change payment deadlines or cancel orders. More than one-quarter talked to their consumers about the impact of the pandemic on their partnership and negotiated with them about delaying delivery.

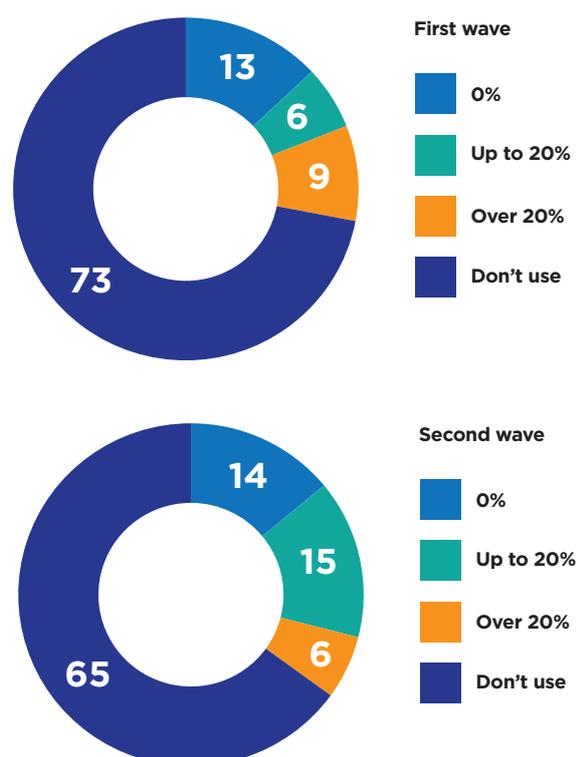
On the other hand, **companies have rarely (92%) decided to invest in new equipment, software, or digital solutions in order to successfully cope with the challenges** brought about by the new crisis. Also, **most companies did not start or increase their use of the internet to perform business functions during the COVID-19 crisis.** In general, two-fifths of businesses use the internet, platforms, and social networks for business administration, while close to one-third use it for marketing. Similar trends regarding investments in IT equipment were recorded in September.

Nevertheless, while in May most companies (73%) did not use external digital platforms, applications, or the company's website for sales, in September the share of companies that had up to 20% of their sales online increased (from 6% to 15%). Although still inadequate, the awareness of new channels of sale is gradually developing. It also implies the need to accelerate the adoption of the Digital Transformation Strategy, currently being developed.

Graph 12. Investing in new equipment, software, or digital solutions due to the COVID-19 crisis (in %)



Graph 13. The current share of sales through digital platforms, applications, or company websites (in %)



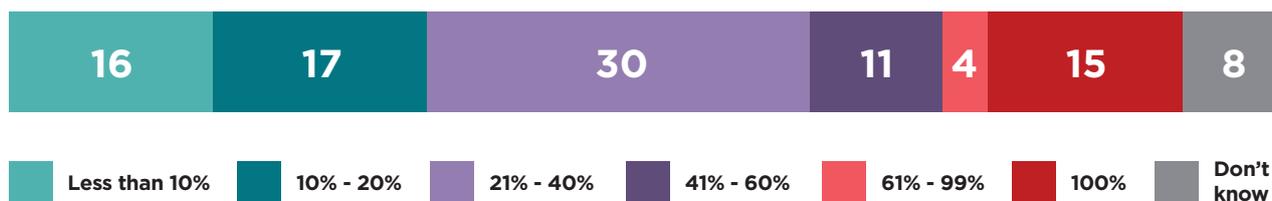
Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, May 2020 and September 2020, commissioned by UNDP

Economic empowerment of women in Montenegro

It is estimated that in Montenegro, prior to COVID-19 pandemic, 45% of the population was active in the labour market (27% in the private sector, and 18% in the public sector), and given the employment status of women, 40% of women were employed. Out of all the employed women before the COVID-19 pandemic, 25% worked in the private sector, and 15% in the public sector. In September, women accounted for 38% of total employment, one-quarter of them working in retail, 21% in administrative jobs, and 20% in the public sector. During the pandemic almost all women entrepreneurs saw some restrictions to their operations, apart from entrepreneurs in tourism and administration who had the opportunity of working from home, but with a reduced volume of work. In addition, women working in the health sector were very active, but they highlighted improper working conditions. When it comes to the changes that employed women experienced at work during the COVID-19 crisis, slightly more than one-third of them (35%) were on paid leave, 31% worked short hours, while slightly under 25% had their salary cut. On the other hand, 10% of employed women had a 10% pay rise. Moreover, 82% of the currently employed women or women who had been employed before the pandemic, as well as 79% of the currently employed women who have had some change to their employment status during the crisis, had social and pension insurance during COVID-19. Almost half of the respondents (47%) reported that the pandemic did affect their personal sources of income, gains from property, investment or savings. **Two out of five women in Montenegro faced financial difficulties, such as the payment of rent and utility costs; while 38% of women reported challenges in terms of reduced financial capacity to cover basic living costs, such as food or hygiene supplies.**

Nearly **20% of women reported that they had asked friends and family for financial support in order to overcome financial difficulties.** During the pandemic **36% of women reported a reduction in or complete absence of access to health services.**

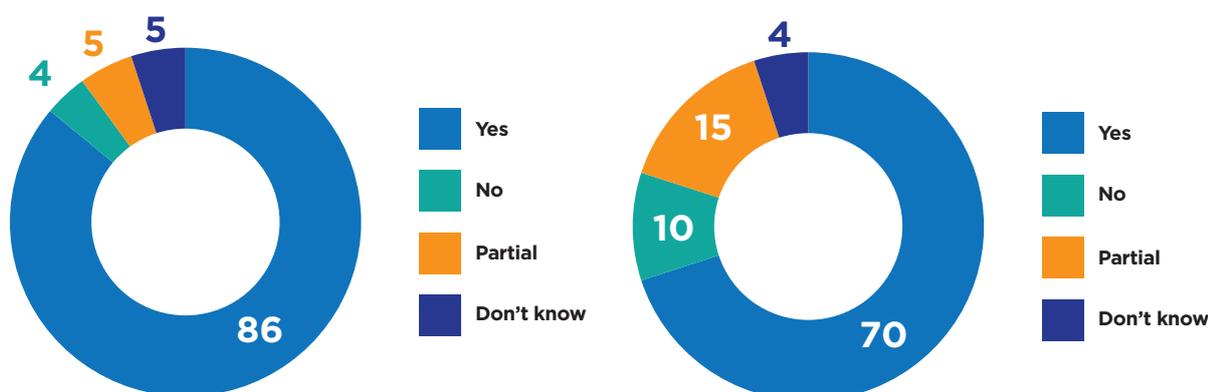
Graph 14. Salary reduction for the total employed populations due to the COVID-19 pandemic (in %)



Source: Ipsos – Consequences of COVID-19 on women’s and men’s economic empowerment, May 2020 and September 2020, commissioned by UNDP and UN Women

During the pandemic 10% of the overall employed population **experienced salary cuts, of which most work in the private sector**. One-third had a salary reduction of between 21% and 40%, while almost 15% did not receive any income. Fifteen percent of employees were on unpaid leave.

Graph 15. Salary received by the total population before and during COVID-19 (in %)



Source: Ipsos – Consequences of COVID-19 on women’s and men’s economic empowerment, May 2020 and September 2020, commissioned by UNDP and UN Women

Among the employed that experienced salary cuts of between 41% and 60%, women’s participation is high. Also, it has been noted that salaries were more frequently not paid during the observed period in the sectors of tourism, services, and transport.

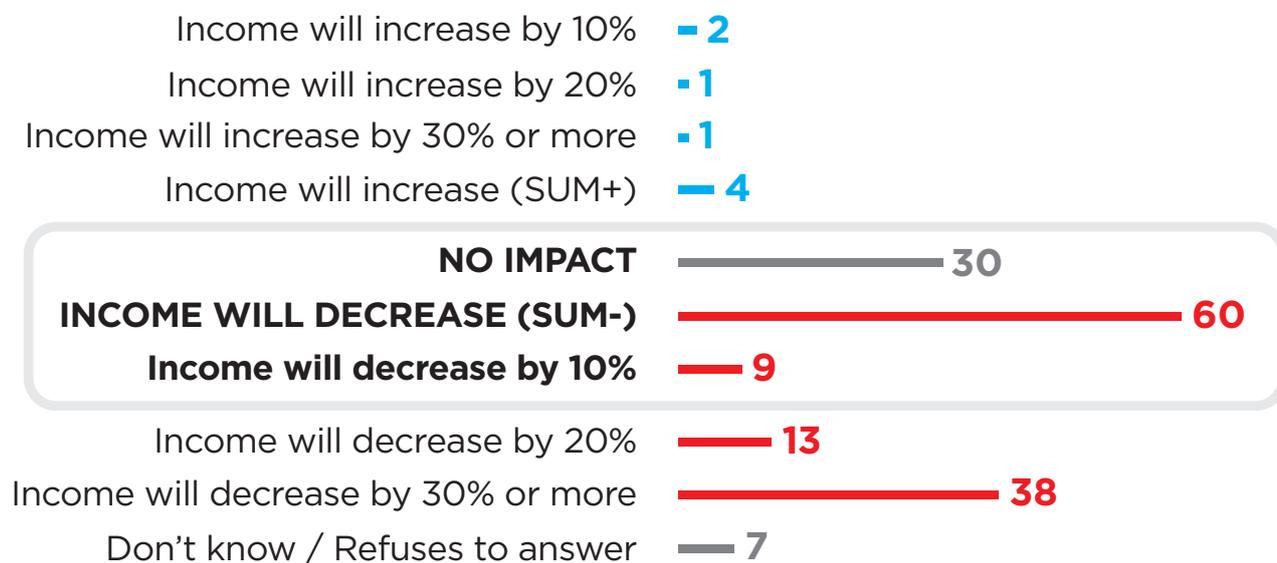
The **qualitative part of the ‘Care Economy and Women Empowerment’ Survey** indicated the specific challenges that women entrepreneurs are facing, depending on the economic sector in which they operate. These will require specific attention in designing the next set of COVID-19 economic response measures.

For example, entrepreneurs active in tourism and education have faced significantly reduced business and therefore irreparable losses that have caused reduced liquidity and an inability to service commitments, including the renting of business premises. Having in mind that entrepreneurial activity in the spheres of tourism and education is highly conditioned by cyclical business earnings, the economic measures need to be adjusted to those dynamics and entrepreneurial needs, especially in the area of education services where it is estimated that more women are engaged. Women entrepreneurs report that reduced salaries in this period confirm the practice of the “minimum wage approach” for workers by default, which requires special attention in the long run and adequate social and economic measures to retain the employees and preserve the right to decent work for all employees. At the same time, the qualitative part of the survey indicates that a certain level of women’s economic activities survived during the pandemic, such as financial and legal services, or other services, such as beauticians. Women entrepreneurs in these sectors report significant reductions in their income and the fact that they have not managed to regain their pre-COVID-19 levels of income. Hence, the economic policy measures should take into account the specificities of such businesses in order to ensure the same economic conditions in the long run.

Reduced revenues, working hours, and their knock-on effect on incomes

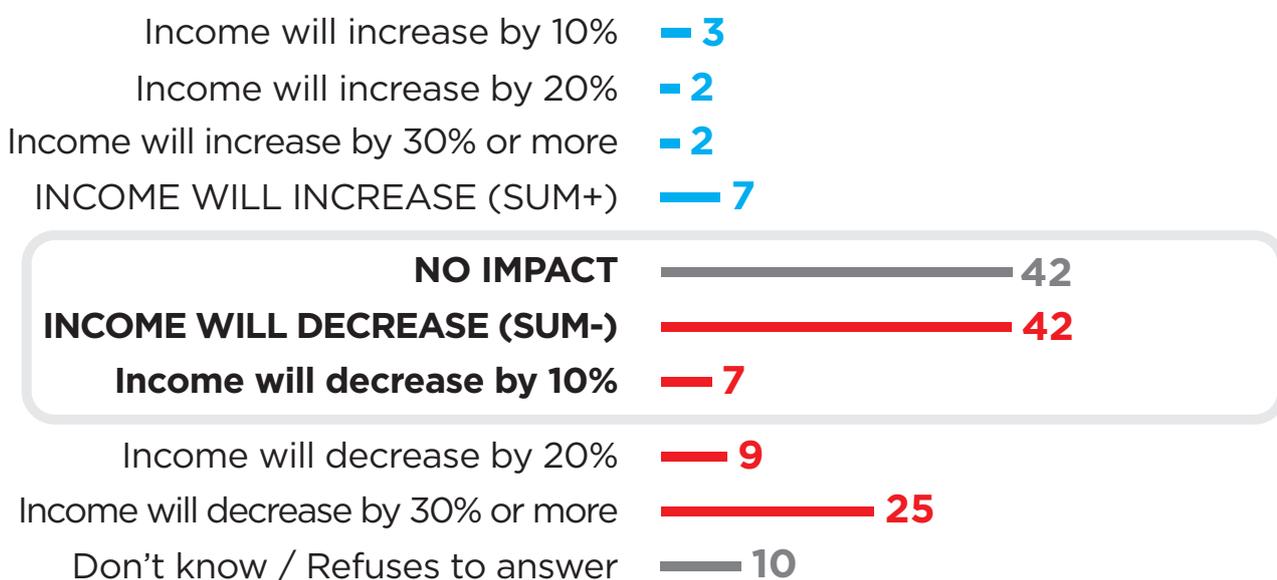
A significant number of citizens are in an unenviable situation according to the UN Rapid Social Impact Assessment. According to this data, in April 60% of the population expected a drop in income, of which almost 40% believed that the decline would be 30%. In June, the expectations somewhat improved, with 42% of the population expecting a drop in income, and among them 25% expected a 30% decline.

Graph 16. Perceptions about the financial situation in April



Source: Ipsos - Rapid social impact assessment, April 2020, commissioned by UN

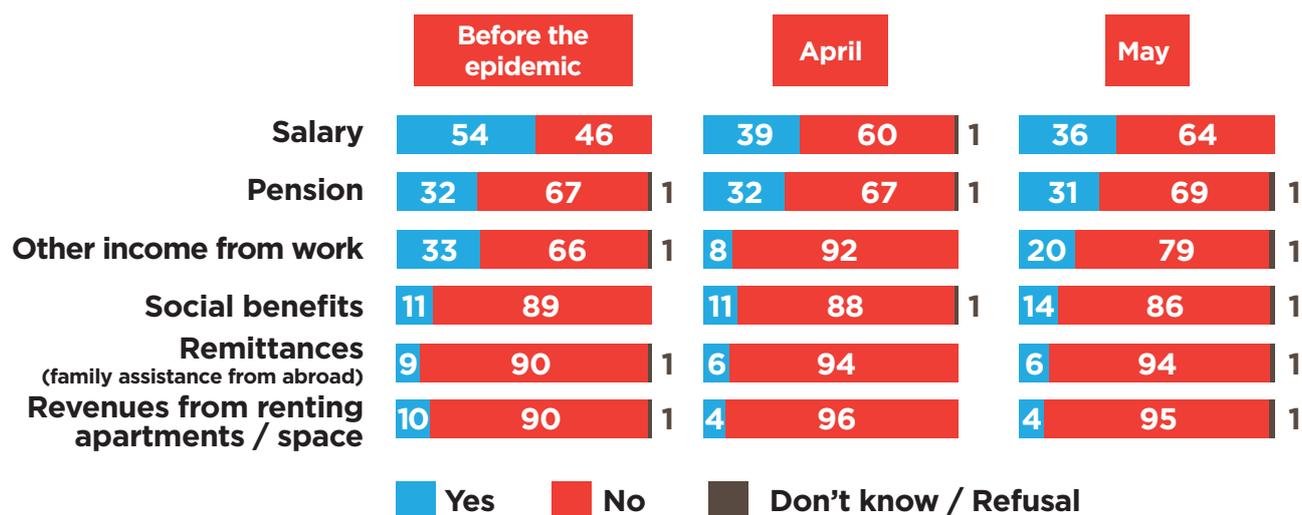
Graph 17. Perceptions about the financial situation in June



Source: Ipsos - Rapid Social Impact Assessment, June 2020, commissioned by UN

About 70% households can see themselves through for up to one month. Also, 15% of respondents in April and 18% in June point to a lower regular income from their salaries, while 25% reported lower other work-related income in April. Already **during the epidemic, 20% of respondents reported either not receiving a salary or losing their job, while 22% of those reporting income from work were not socially insured.**

Graph 18. Financial sustainability of households (in %)



Source: Ipsos – Rapid Social Impact Assessment, June 2020, commissioned by UN

This result is not surprising, because the UNDP survey shows that **seven out of 10 companies expect a decrease in revenue in the next three months**. The wage reductions have been more often in retail, transport, tourism, and catering, while unpaid leave has also been present in manufacturing and trade. More than half of the citizens worked 8–9 hours a day on average before the pandemic, while this percentage fell to 21% during COVID-19. During the pandemic, there has been a noticeable increase in the number of citizens who report that they worked on average 1–4 hours a day, from 4% before to 26% during the pandemic, which is in line with the reported changes in terms of part-time work.

Also, findings from the survey conducted in April by the Montenegrin Employers’ Federation, supported by the ILO and EBRD, indicate that 10% of economic entities have reduced the number of employees due to the COVID-19 crisis, while 90% of them have not. Of the entrepreneurs downsized, one-third reduced their human resources by over 31%, while in 54% of them the decrease was to a lesser extent, from 1% to 10%.

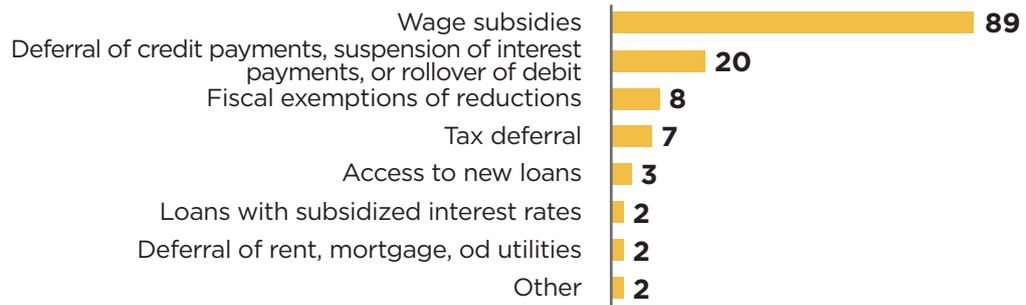
UNESCO research related to the culture industry conducted during the first wave shows that 42% of the respondent cultural institutions reported that up to 50 previously scheduled events or cultural manifestations were cancelled or postponed, thus losing income of €5 per admission/ membership fee. Thirty percent of the respondents expected more than 1,000 people to attend the cancelled and postponed events. This shows the impact on this minor, but growing sector of the economy. At the same time, entrepreneurs in this field seem to be eager to explore digital platforms.

MSME&E expectations towards the government’s measures, current and future

In general, **nine out of 10 companies in Montenegro have heard of the measures** introduced by the local or national governments, while seven out of 10 companies have applied for or are currently using some of the measures. **The wage subsidy was initially singled out as an extremely effective economic measure that the largest share of companies applied for or were using, while the second survey showed lower scores for practically all of the measures, probably as a result of unrealistic expectations.** Nevertheless, the wage subsidy is still the predominant measure.

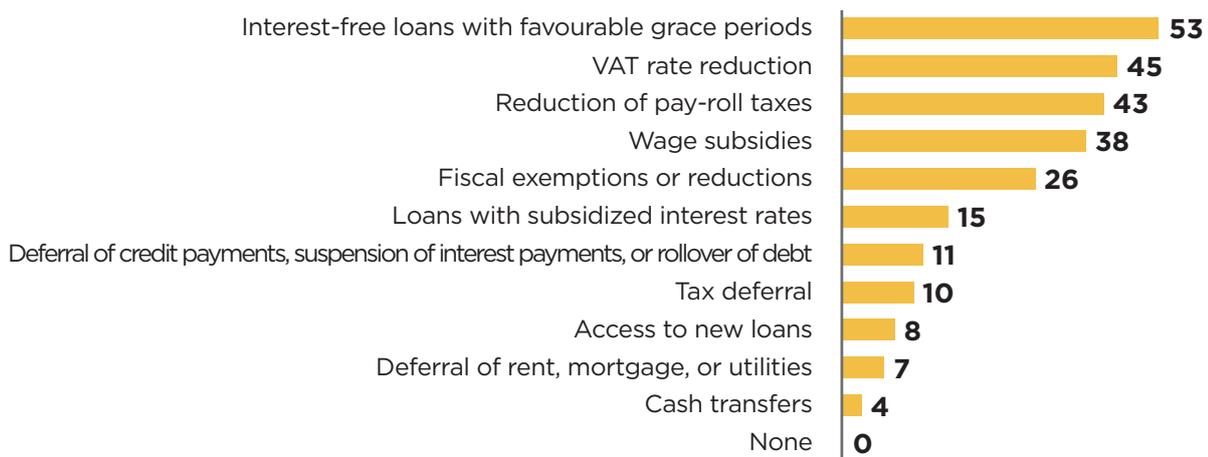
In addition to the wage subsidy, over one-quarter of companies pointed out during the first wave that measures such as **fiscal relief or cuts (especially for companies in the north)** and access to new loans should be a part of the government’s intervention in the coming period, while in the second wave only 8% (for fiscal exemptions or reductions) and 3% (for access to new loans) saw these measures as helpful, while 20% singled out deferred loan repayment.

Graph 19 - The type of measures companies applied for or are currently using (in %)



Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

Graph 20. Companies' expectations regarding the government's future measures

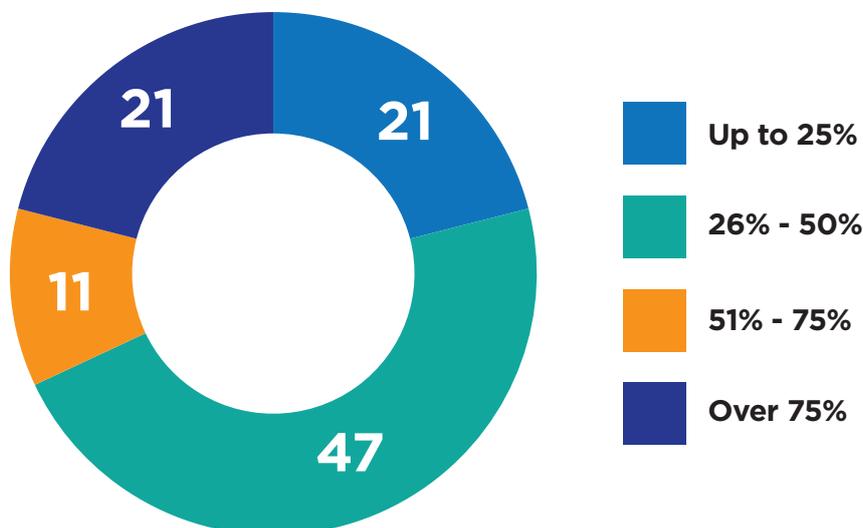


Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

More than a half of the companies are confident about their future development, while almost the same number of companies express opposite views concerning their expectations regarding the future development of the macroeconomic environment, but the level of pessimism has increased.

While in the first wave over **two-thirds of the companies expected** that in the next three months their revenues would decrease compared to the same period in 2019, that share is now close to 80%.

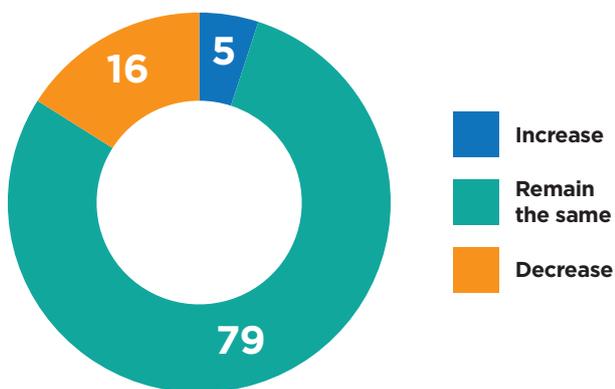
Graph 21. Anticipated reduction in revenues in the coming three months compared to the same period last year (in %)



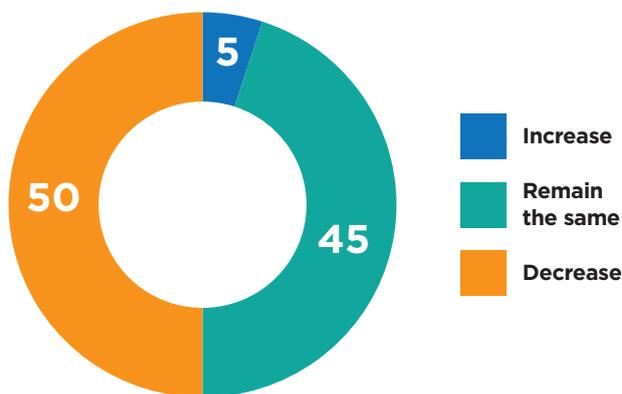
Source: Ipsos - COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

Moreover, after three months the number of companies that believe that investments will reduce increased (from 34% to 50%); the same goes for the share of companies that believe there will be no change to investment or that the number of full-time employees will go down (from 7% to 16%).

Graph 22. Expected change in the number of employees in the coming 3 months compared to the same period last year (in %)



Graph 23. Expected change in investment levels in the coming 3 months compared to the same period last year (in %)

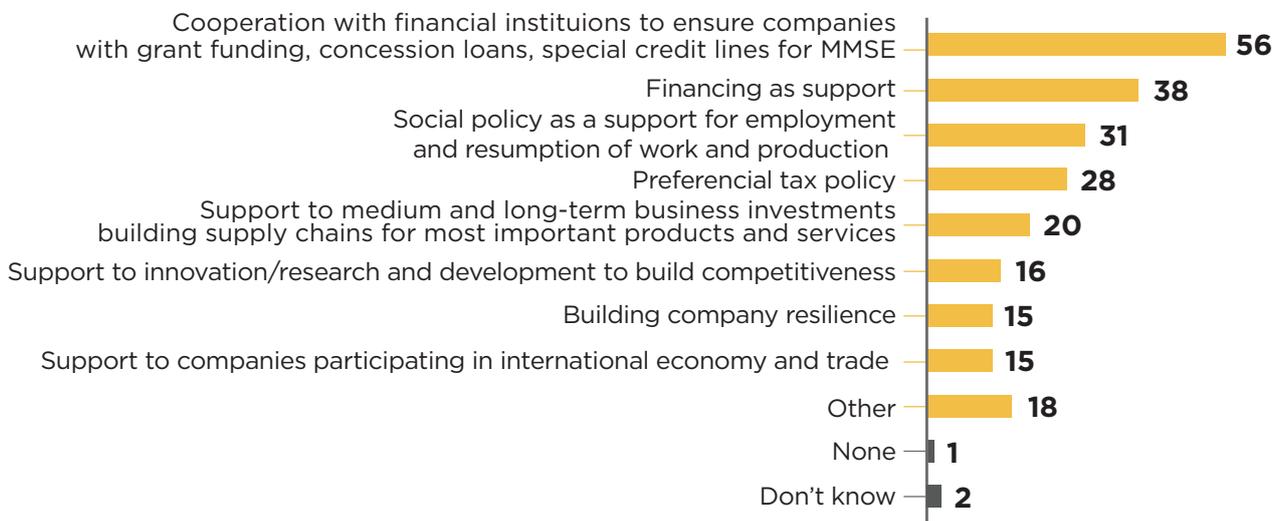


Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

However, **companies located in the southern region** of Montenegro are significantly more likely to state that they are **not confident about their future development** or in the future development of the macroeconomic environment given their reliance on tourism. In addition, they **predicted a reduction in revenue of over 75% and a reduction in the number of employees, while in September they anticipated a reduction of close to 80%.**

Considering what can be done to ensure long-term development, starting from **more than three out of five companies that proposed cooperation with financial institutions** that would provide companies with grants, concessional loans, and special credit lines for micro, small and medium-sized enterprises, that share in September was 56%, while the share of those who propose a social policy measure that would support employment and the resumption of work and production increased from 17% to 31%.

Graph 24. Suggestions for longer-term development (in %)



Source: Ipsos – COVID-19 Survey on MSME&Es in Montenegro, September 2020, commissioned by UNDP

Obviously additional measures to help with **liquidity** and securing cash collection are needed, whether this is **through a guarantee fund, a more robust factoring scheme, more tax relief, or another model designed with the commercial banks.**

The nature of the government's measures primarily targets formal firms and workers. Since **many people do not have a formal job and are not covered by social assistance programmes that target the existing poor**, these specific characteristics of the local labour market should be considered when implementing crisis response measures and determining eligibility criteria. In that regard, medium- and long-term changes to the tax policy could be considered in order to enable transition of informal labour to formal employment, especially given the low average salary, and implicitly the median salary levels.

VII. GREEN TRANSITION AND DIGITAL TRANSFORMATION AS THE WAY FORWARD

If we analyse the newly created value of the Montenegrin economy in constant prices and compare items with a more pronounced impact between 2008 and 2018, we conclude that the structure of newly created value has a similar distribution, while certain interesting tendencies are noticeable. **Trade still has the single largest share in the economy – 12.6%. However, it is noticeable that over the last 10 years, there has been a significant increase in the participation of accommodation and food services, i.e. tourism and hospitality. This growth raised its share from 4.2% to 7.7%, which ranks this economic area in second place.** Although the increase to 7.7% of GDP creation is very significant in itself, many other activities are directly related to this area. For example, the significant increase in the number of foreign visitors over the last 10 years has contributed to the increase in exports of goods and services (e.g. agricultural products sold to foreign clients). Thus, the share of tourism within total economic activity is estimated at over 20% of GDP creation. Additionally, although **employment increased by around 25% between 2010 and 2019 according to administrative sources, this increase was quite uneven; thus, the hospitality industry, administrative and other auxiliary services, and construction added more than 50% of these jobs.** Thus, the share of tourism in the overall level of economic activity is estimated at over 20% of GDP. In addition, **regardless of the fact that there was a rebalance of GDP observed from the point of view of consumption in the period between 2008 and 2019, households' personal consumption is still very high, at 72.7%.**

All this points to a relative narrowing of the economic system and suggests that the impact of the COVID-19 pandemic will be significant. At the same time, given the disruption in the main economic activities on which the personal consumption of households depends, the disturbance is likely to significantly affect the growth of unemployment, and subsequent growth in poverty among the particularly vulnerable categories of population. **The conclusion is therefore to initiate discussions that may lead to a certain turnaround when it comes to the economic recovery policies.**

The green transition and digital transformation offer a new path for investment

It is encouraging that, regardless of COVID-19, **the strategic vision for the development and competitiveness of the Montenegrin economy is well defined in the Smart Specialization Strategy 2019–2024.**

Foreign direct investments have been and will remain an important generator of economic development, but **the key to recovery and its sustainability will be the tendency of Montenegrin society to innovate.**

A developed and competitive state is based on three key strategic directions, namely:

- A healthier Montenegro;
- A sustainable Montenegro;
- A modernized and digitalized Montenegro.

This strategy identifies areas in which future key value chains should develop in order to become the backbone of sustainable development in the coming period:

- renewable energy sources and energy efficiency;
- sustainable agriculture and the food value chain;
- new materials and sustainable technologies;
- sustainable and health-related tourism; and
- ICT, with ICT being a horizontal sector, as it provides business and technological support to other priority sectors.

Having in mind that the goals and selected value chains point in the direction of green transition and digital transformation, a brief overview/review of the structural reform programmes was made, which includes the Economic Reform Programme and the priority structural measures for the period 2020–2022, the Industrial Policy 2019–2024, energy policy, the sustainable agriculture and tourism strategy, as well as the IDF programme to encourage entrepreneurship, which should support green businesses in the coming period.

The brief analysis of the selected documents clearly suggests that the economic impact of COVID-19 poses **the need to put some of them under renewed scrutiny and see them through opportunities to create support measures and programmes that may spur the green transition and digital transformation**. While some, for example the Industrial Policy, discuss the circular economy and digital infrastructure to a certain extent, the priority structural measures for the coming two to three years hardly dwell on them at all. The IDF's portfolio of credit lines should reflect these policy changes as well.

Policy review guidelines could be found in the new strategic framework of the EU, the European Green Deal, which is in line with the UN 2030 Agenda and Sustainable Development Goals (SDGs). Therefore, in the coming period, it should be the basis for the planning and harmonization of domestic policies, including possibly developing a Montenegrin green economy plan. To that end, **changes to the tax policy should be examined including introduction of a carbon tax** as a way to rebalance the tax burden away from labour and towards the encouragement of sustainable consumption.

The Smart Specialization Strategy is seen as offering a new approach and can be used as a beacon to recalibrate other key government documents. In this way, **Montenegro could accelerate development and avoid the so-called middle-income trap**.

However, much remains to be done in both **the legislative area, where it should enable the use of digital technologies (possibly accelerating the obligation to use digital signatures) and especially blockchain technology**, for example as a way to improve public administration transparency and quality, and **digital upskilling for civil servants**. All this could improve the business environment and spur companies to adopt new ways of doing things.

The necessity of revising the **2020–2022 Economic Reform Programme** can be used as an opportunity not only to review the budget and macroeconomic scenarios in the light of the COVID-19 pandemic, but also **to revisit structural priority measures in line with the green transition and digital transformation options**.

VIII. Recommendations

Based on the above findings and the analysis, recommendations are put forward from the short-, medium-, and long-term perspectives.

Some of the recommendations highlight the need to develop new alternative scenarios, as it is uncertain how the COVID-19 pandemic will evolve in the next 12 months, within Montenegro, in Europe, and globally.

Some recommendations point to the need to strengthen public finance, while at the same time providing suggestions of how the business sector could be supported further.

A number of recommendations look at different modalities of supporting the development of MSMEs in the context of the green transition.

Other recommendations look towards the public administration, the need to improve its performance and the overall business environment (beyond the immediate support to MSMEs), as these are key for long-term recovery, while setting the economy on a sustainable course.

The ambition of these recommendations is not to prescribe ready-made solutions, but rather to offer food for thought and the basis for dialogue between the relevant stakeholders, policy-makers, and decision-makers, that is required to define the way forward. Also, the ambition was not to define recommendations that will cover all sector-level policies. They rather focus on those measures that will help stabilize economic conditions in the short term as a necessary precondition for the functioning of micro, small, and medium-sized enterprises, while in the medium and long term they emphasize a green transition (decarbonization) and digital transformation as the driving forces of the next development period.

Phase 1 (up to six months): measures to mitigate the adverse impact on the socio-economic environment

Make additional assessments, review existing documents and develop alternative scenarios

R1. It is obvious from the previous analysis that it is necessary to review the budget projections for 2020–2021 and in that context *it is recommended to analyse scenarios that would have the quality of the summer tourist season as a variable due to the high seasonality of the economy and the high direct and indirect impacts of tourism on GDP. At the same time, it is recommended to consider an extended second lockdown scenario, should a second wave of COVID-19 materialize in the autumn.*

R2. *It is also recommended to consider the development of the next Economic Reform Programme 2021–2023 so that it lays the foundation for a green recovery supported by a digital transformation, while making at the same time a clear link to the United Nations Agenda 2030 for Sustainable Development and the Smart Specialization Strategy.*

R3. Bearing in mind that the subject of this analysis is the impact of COVID-19 on micro, small, and medium-sized enterprises and individual entrepreneurs, *it is recommended to initiate a special analysis of the impact of COVID-19 on the social sectors (health, education, social affairs), especially in terms of their long-term sustainability.*

Increase the preparedness of public and private entities to maintain business continuity in the case of a possible second wave of COVID-19

R4. In the light of the ongoing second wave of COVID-19, *it is recommended to introduce, implement, and/or improve the existing business continuity plans by all public organizations at the national and local levels, as well as by private and state-owned companies.*

R5. *At the same time, it is recommended to set a predictable open border policy by the end of 2021 with possible requirement for all arrivals to Montenegro to be conditioned by them having proof of not being infected with COVID-19.*

R6. *In order to raise the quality of the public administration (in the context of the report, especially with the aim of supporting micro, small, and medium enterprises) and of the education system, it is recommended to systematically deliver digital upskilling training for civil servants at the national and local levels, as well as for teachers. This recommendation is also put forward in the light of the fact that any business continuity plan will entail the substantial transfer and utilization of digital technologies at all organizational levels.*

Further support for addressing liquidity problems and launching economic activity

R7. *Given the particular sensitivity of businesses run by women and other vulnerable social groups, it is recommended to revisit such support programmes and any additional advantages (prolonged moratorium and fiscal relief).*

R8. *Modelled against similar examples, it is recommended to consider the possibility of converting part of the credit support for liquidity into a grant if the employer has retained the workers for a sufficiently long period.*

R9. *In order to mitigate the problem of collection of receivables, it is recommended to consider the temporary introduction of VAT payments on the collected cash and not on the issued invoices. This would significantly improve the liquidity of small and medium enterprises.*

R10. *Given that the banking sector is crucial for economic recovery, it is recommended to consider developing a sustainable guarantee scheme that will help encourage new lending for the recovery, as many companies are delaying their investments, and to strengthen factoring activities.*

R11. *Given the severity of the problem with the collection of receivables that companies perceive, and given the tightness of the budget system and Montenegro's reliance on borrowing on the foreign market, it is recommended to consider the creation of alternative and temporary forms of liquidity (new payment methods, digital currency, a special kind of bonds) in the range of 5% to 10% of GDP, if the worst-case scenario with regards to the tourist season materializes or in case of a new lockdown.*

R12. *Given the demanding health and sanitary preconditions for the functioning of the tourism and hospitality industry and the increased costs, it is recommended to implement support and employment programmes that contribute to the COVID-19 standard of cleanliness and safety through the National Employment Office.*

R13. *Furthermore, in case of a severe rise in unemployment, the creation of public works programmes, such as employment programmes on afforestation, waste management and the like, should be considered.*

Economic and social dialogue

R14. *Given the criticality of engaging all stakeholders, it is necessary to continue consultations with social partners and the business community, and in that sense it is recommended to intensify the economic and social dialogue within the adequate bodies.*

Phase 2 measures (6-18 months): medium-term measures for economic recovery

Strengthen the strategic framework for sustainable economic recovery

R15. As identified in the assessment, the Smart Specialization Strategy (S3), along with the National Strategy for Sustainable Development, offers a framework and goals that can be the basis for long-term sustainable economic growth, recovery and development. *It is recommended that all sector-level strategies are aligned with the Smart Specialization Strategy. In that way, numerous sector-level measures, incentives, and action plans would promote the selected S3 economic value chains, namely: renewable energy sources and energy efficiency; sustainable agriculture and the food value chain; new materials and sustainable technologies; sustainable and health tourism; and ICT, as a horizontal sector which provides business and technological support to other priority sectors.*

R16. In accordance with the goals of the Smart Specialization Strategy, and as the first next step in its implementation, *it is recommended to initiate the process of drafting a new spatial plan of Montenegro in order to affirm the new growth model.*

R17. *It is recommended to accelerate drafting of the National Energy and Climate Plan until 2035, in line with the guidelines of the Energy Community, in order to further define the framework for encouraging energy transition.*

R18. *It is recommended to accelerate the preparation and adoption of the Digital Transformation Strategy, reflecting on the lessons learned, threats, and opportunities from COVID-19.*

Further reform of the education sector

R19. Discovering the possibilities for distance learning and the pressure that exists on the existing network of schools should lead to further modernization of teaching models. It is recommended to explore additional possibilities for providing higher-quality curricula, incorporating digital skills and tools as a way to improve educational outcomes. It is also recommended not only to continue with the activities on digitalizing textbooks and their replacement with digital content accessible on tablets, but also to invest in smart school infrastructure (such as boards and other digital tools), and ensure their accessibility for all children. These changes should still go hand in hand with the obligation to continuously use notebooks and pens as didactic tools. To drive the change, consider the introduction of distance learning for one school day, as well as defining additional curricula for talented children, as well as children in need of additional support in various fields.

Green business

R20. A green transition is defined as a way to achieve long-term sustainable economic development in human living conditions, which is also a way to encourage innovation and avoid the middle-income trap¹⁸, so *it is recommended to define incentive schemes for a green transition on the supply side. Some of the measures could require achieving high energy efficiency levels in all newly built facilities (for example, through solar panels and appropriate batteries, and passive energy building standards). The demand side should also be covered by encouraging e-mobility, as well as supporting the modernization of production processes in order to achieve greater energy efficiency.*

R21. *It is recommended to revisit the programme of economic passports to include investments in green transition and digital transformation projects, as well as attracting talent to Montenegro, borrowing from examples of start-ups from other countries (e.g. Estonia, Ireland, Chile and Israel).*

R22. The 2030 Sustainable Development Goals represent a global universal agenda that can only

¹⁸ The "middle-income trap" is an economic development phenomenon in which a country that attains a certain income gets stuck at that level and does not progress to higher income levels.

be achieved if the real sector is fully engaged, so it is recommended that the SDG mapping of the key value chains is conducted and programmes created to support the achievement of the defined SDG business indicators through these specific value chains. Addressing segments of the value chain that can be digitalized or substantially improved from the point of view of their impact on the environment should be given particular attention.

Innovative financing of green and digital economic recovery

R23. It is recommended to accelerate the implementation of recently adopted legislation that deals with innovation.

R24. Also, as one of the models, it is recommended to consider and create programmes such as the purchase of the green bonds of small and medium enterprises that provide funds to companies to invest in achieving SDG indicators defined by the prospectus in the proportion of: 70% from financial institutions and 30% from the government, under more favourable conditions. Furthermore, it can be considered to convert part of the investment into a performance-based grant.

R25. The important role that the Investment and Development Fund plays in encouraging the development of micro, small, and medium enterprises could be further emphasized in the context of the green transition and digital transformation. That is why it is recommended that the IDF concentrates dominantly on innovation-support programmes. It is recommended to consider the introduction of "green" credit lines strengthened by the application of performance-based grant schemes (PBGS) which can be linked to the operation of the Eco Fund and the future Innovation Fund as well.

R26. It is necessary to consider the diversification of sources of financing for small and medium enterprises, so in that sense it is recommended to define measures for stock exchange reform in terms of the possibility of generating funds to support a new generation of green projects.

R27. Given the importance of industrial policy for GDP diversification, it is recommended to define measures and an action plan to stimulate a circular economy.

Business environment

R28. It is recommended to remove additional administrative barriers in order to improve Montenegro's position on the World Bank's Doing Business list, but also primarily in order to curb the informal economy. The strategy, i.e. the action plan, should recognize and be the basis of the policy for improving the business environment in all sector-level policies. It is also recommended to consider the Estonian e-residence model and to establish companies in this way.

R29. It is recommended to change the legislation in order to enable the introduction of blockchain technology in everyday use. Also the intensified and preferably mandatory use of digital signatures is recommended in order to improve the work of the administration with clients during all the administrative procedures as well as monitoring the status of applications with the help of digital technologies, such as blockchains.

Tax policy

R30. Given the importance of the tax policy, it may lead to the solutions that can free up additional private capital for investments in health, life insurance, and education. Therefore, it is recommended to consider certain models of relieving the tax burden on labour, primarily through the transfer of contributions at the expense of the employer in gross wages and compensation to employees through the revision of income tax. This approach should be based on the median salary and could also lead to a reduction in the informal economy. Therefore, it is recommended that MONSTAT, in cooperation with the Tax Administration, define the methodology to calculate the median salary, as well as the average salary, in both the public and private sectors.

R31. In the context of financing the reduction in the tax burden on labour and public debt, it is recommended to consider the model of introducing a carbon tax.

New social policies

R32. Having in mind existing pilot programmes in the world, it is recommended to conduct research on the possibilities and models of universal basic income to gauge its relevance for Montenegro. In addition, with a view to a sustainable social policy, it would be helpful to monitor the trends in the household income median, and not only individual salaries, which should be provided by MONSTAT.

R33. It is recommended to review the conditions on the labour market and the current legislation and redefine jobs in terms of introducing flexible working hours and working from home, which would lead to productivity growth and have a positive impact on women's activity in the labour market.

Support investments

R34. It is recommended to intensify PPP (public-private partnerships) in all areas, including public administration, and especially in areas where specialist knowledge is needed. PPP models can also be used when it comes to further expansion of the broadband network in order to provide quality service to rural areas, as well as to invest in a 5G network. The same model can be used to consider the establishment of regional hubs for data centres, bearing in mind the possibility of further development of the energy sector on the basis of clean energy.

Phase 3 (18 months-4 years or more): long-term measures to build socio-economic resilience

Public finance

R35. Deterioration of macro-financial parameters is to be expected as a result of the pandemic, uncertainty in the future, and the openness of the Montenegrin economy and thus the propensity for external shocks. It is recommended to consider the modalities of the fiscal reserve up to 10% of GDP. One of the models could be to connect to the so-called sovereign wealth funds of some countries and the reserving of funds to withdraw in the case of the fulfilment of the conditions, instead of relying on the extraordinary issuing of bonds.

Education

R36. In order for education at all levels to contribute to digital transformation and smart and inclusive growth, it is recommended to ensure the development of quality digital curricula with a special focus on 21st-century skills (such as critical thinking, problem solving, digital literacy, team work, and empathy), and provision of capacity-building programmes that will support teachers to use digital tools in an effective manner and ensure that their learners develop the skills they need for success in the labour market.

R37. The programme of implementing innovated internship has contributed to a reduction in youth unemployment, which nonetheless remains high. It is recommended to further apply the internship model with the additional innovation of an approach based on a decade of experience. It is also recommended to consider a similar model before setting quotas for university enrolment.

Industrial production

R38. At the same time, it is recommended to analyse comparative examples of small countries that have renewed or preserved industrial capacities by relying on the use of robots and other digital technologies.

Culture, tourism, and agriculture

R39. The defined value chains in the Smart Specialization Strategy are potential generators of high-income business activities, so *it is recommended to develop measures to encourage medical and other similar forms of tourism, and to consolidate and expand economic value chains that can spur both domestic production and consumption, as well as lead to the exporting of selected products (e.g. organic food and cosmetics).*

R40. One of the development opportunities for Montenegro is the international film market. Streaming as such has increased significantly during the epidemic, so *it is recommended to intensify contacts in order to create sustainable conditions for international film production (Netflix, HBO, Disney...)*

R41. *It is also recommended to strengthen cultural industries through promoting cultural diversity and the management of cultural heritage as a vehicle for sustainable development.*

Pension system

R42. It is necessary to continue activities on the sustainability of the public pension system, so *it is recommended to develop a model of further reforms, which could include the introduction of a set of individual accounts for all first-time employees within the Pension and Disability Insurance Fund, which would be managed separately.*

Regional cooperation

R43. Regional cooperation in many areas has become especially important, so in this context *it is recommended to initiate a model of cooperation in order to provide strategic reserves in a reliable and cost-effective manner, as well as forms of cooperation in health to ensure access to (and possibly local production of, e.g. through 3D printing) equipment and medical devices, and potentially tele-medicine.*

IX. Appendices:

1. Representative sample

The survey of business entities in this study was carried out on a representative sample of entrepreneurs, micro, small, and medium-sized enterprises in Montenegro. In other words, the survey covered the above business entities within the whole territory of Montenegro, within all three regions, and for all three types of activity (manufacture, trade, and services).

Sample breakdown by type of activity:

Activity	May	September
Manufacture	71	76
Trade	96	97
Services	152	148
Total	319	321

Sample breakdown by company size:

Company size	May	September
Small	287	292
Medium	32	29
Total	319	321

Sample breakdown by region:

Region	May	September
North	47	46
Centre	154	152
South	118	123
Total	319	321

In the first stage of stratification, all the business entities were represented by the region in which they are registered, the type of activity they pursue, and their size (small or medium-sized enterprises) in the proportion that exists in the population of business entities in Montenegro (based on the 2018 CRPS data). Given that, by applying proportional stratification of entities, a small sample of medium-sized enterprises is obtained, which would prevent one from drawing any definite conclusions for this group of entities, the stratification was adjusted by increasing the intended number of medium-sized enterprises, while reducing, at the same time, the number of small enterprises. After gathering the data, the disproportional stratification produced was adjusted through post-stratification.

Thus, the actual size of the sample and the sub-samples (defined by size, type of activity, and region) ensured reliable assessments of the indicators measured both across the whole population of small and medium enterprises in Montenegro and by the region, three types of activity, and two size sets of the above entities.

The quantitative survey¹⁹ made it possible to **precisely measure and quantify** the relevant indicators and **compare** the results for each indicator for different segments of the population. In addition, quantitative surveys done on a representative sample in compliance with certain sample planning and execution procedures enable **generalization of the results obtained for the whole population, as is the case with this study**. We can say with a certain degree of certainty that the survey results, obtained on a random representative sample, reflect the state-of-play in the overall population of small and medium-sized companies; figuratively speaking, the results obtained are the "opinions of entrepreneurs and small and medium-sized enterprises in Montenegro", not of "respondents".

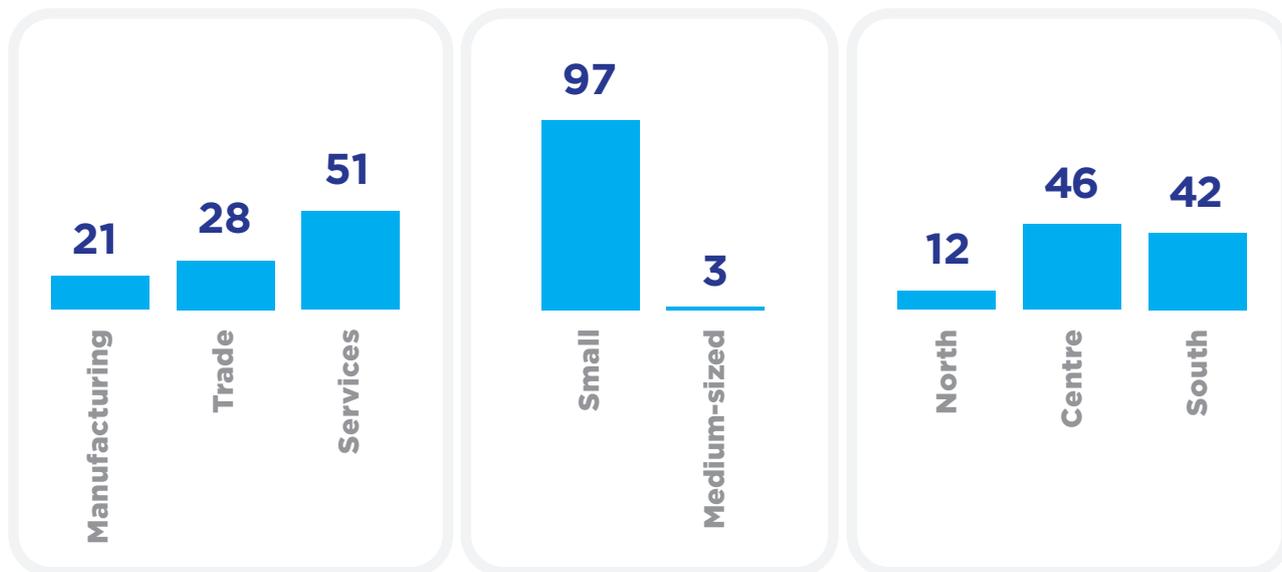
¹⁹ In social sciences, a quantitative survey is a systemic and empirical study of social phenomena using statistical, mathematical, or computer-assisted methods. The aim of a quantitative survey is to develop mathematical models, theories, and/or hypothesis which refer to the phenomenon being surveyed. The measurement process is key for quantitative research since it ensures a fundamental link between empirical observation and a mathematical expression of quantitative linkages.

A single-stage stratified random sample was used, in terms of its technical characteristics and sampling procedures. The sample framework is the list of all business entities registered in the CRPS in 2018. Stratification was done by region, type of activity (manufacturing, trade, and services), and size (small and medium-sized enterprises), while, based on this stratification, business entities were selected randomly as representatives.

When it comes to the groups of activities selected for stratification, we first used the division of business entities according to the NACE Rev. 2 classification. Thereafter, in order to obtain reliable data at the activity level, all the activities were grouped under three headings: manufacture, trade, and services.

As regards the size, the division into small and medium-sized enterprises was done according to the number of workers (in 2018). Based on this criterion, all business entities were classified either as small (< 50 employees) or medium-sized (50–250 employees). The group of small-sized entities also includes entrepreneurs and micro-companies.

The distribution of business entities (in %) around these characteristics is shown in the graph below:



2. The first package of measures to mitigate the impact of the COVID-19 crisis in Montenegro: 19 March 2020	
1	MITIGATING THE ADVERSE IMPACT ON THE FINANCIAL SYSTEM - LOAN REPAYMENTS DEFERRED FOR 90 DAYS - Moratorium on loan repayments for businesses and individuals, the Central Bank - the Decision on Interim Measures for Mitigating the Adverse Impact of the Novel Coronavirus on the Financial System (Official Gazette of Montenegro 019/20 of 19 March 2020 and 028/20 of 2 April 2020). A 90-day repayment deferral for the loans of businesses and individuals held with banks, microcredit institutions, and the IDF for all types of loans, including cash loans (secured and unsecured), housing loans, loans for pensioners, consumer loans, investment loans, working capital loans, liquidity loans, credit products linked with the use of payment cards, etc.
2	PAYMENT OF PAYROLL TAXES AND CONTRIBUTIONS AND LIABILITIES UNDER THE LAW ON LIABILITY RESCHEDULING DEFERRED FOR UP TO 90 DAYS - Payment of payroll taxes and contributions deferred for 90 days, later linked with the second package and subsidies to businesses. The Law on Tax Liabilities Rescheduling, Official Gazette of Montenegro 83/16, the public call for rescheduling was issued in 2017; the process is being conducted by the Tax Administration) - deferred for 90 days.
3	NEW IDF CREDIT LINE TO SUPPORT BUSINESSES - Liquidity, up to a maximum amount of €3 million per beneficiary, with a 1.5% interest rate (EIB financing, while it can go up to 2% from other sources), grace period - 2 years, repayment period - 8 years, excluding the grace period, for entrepreneurs and SMEs in the priority areas: medication, medical equipment and vehicle supply, tourism, hospitality, food production and processing, transport, and services. Liquidity loans are intended primarily for the payment of employee earnings for three months, based on the last paid net salary. The loan proceeds will be deposited by banks into the current accounts of employees.
4	ASSISTANCE FOR THE MOST DISADVANTAGED - The government appropriated €1 million in assistance for the most destitute (€50 for 8,500 social assistance beneficiaries and 11,900 pensioners who receive the minimum benefit of €128)
5	RESTRICTION AND CONTROL OF BUDGET SPENDING - The suspension of all tenders except necessary ones. Procurement in line with the PHI recommendations of 11 and 13 March 2020 - the Assets Administration and the relevant municipal services to procure additional quantities of hygiene products in an urgent procedure, as well as disinfectants for personal use, work spaces, and equipment for the needs of state administration authorities, administration authorities, and local authorities. To be done in line with the recommendations by the Public Health Institute. Plus - for educational and healthcare institutions. In order to cut costs, the government has introduced limitations to and strict control of budgetary expenditures, with a ban on launching any procurement, except what is needed for the functioning of the health system, i.e. urgent procurement in terms of the Law
6	BUDGET SAVINGS on gross salaries of public administration employees (central level, municipal level, public companies where the government and/or municipality hold a majority stake, public institutions, regulators, and other bodies). Just the fixed part of the salary - all variables and fees for the work in commissions or on management boards are suspended. Local governments are recommended to do the same. Just the fixed part of the salary. The Prime Minister said that the members of the government would pay half of their salaries to the account of the National Coordination Body for Communicable Diseases. Budget users are prohibited from (further) payments on the basis of the NCB, because the budget is harmonized.

7	PAYMENT OF RENT FOR PROPERTIES IN STATE OWNERSHIP DEFERRED FOR 90 DAYS. The government entrusted all state institutions that rent property owned by the state to enable for all lease holders, upon application, rent payments to be deferred for 90 days. The measure entered into force on 1 April 2020. The government wanted to lead by example and to encourage others towards responsible behaviour.
8	ADVANCE PAYMENT TO CONTRACTORS FOR INVESTMENT WORKS , where it does not threaten public health. The capital projects launched will not be halted. Continued financing for capital projects under way and the necessary services to suppliers through advance payments with bank guarantees up to the amount of the advance payment (the Public Works Administration and the Transport Administration)
9	ASSISTANCE TO MEDIA OUTLETS - All measures concerning liquidity apply also to media outlets . The Media Agency is to relieve them of fee payments, and print media are to be urgently provided with liquidity financing. Support also to local public broadcasters through the Ministry of Culture in the form of one-off assistance.

3. Second package of measures to mitigate the impact of the COVID-19 crisis in Montenegro: 24 April 2020

<i>1.</i>	SUPPORT FOR BUSINESSES AND EMPLOYEES TO MITIGATE THE ADVERSE IMPACTS OF THE COVID-19 CRISIS
1	SUBSIDIES FOR CLOSED ACTIVITIES (List 1 - 77 activity codes)
	<p>Business entities are eligible for subsidies on employee earnings for the months of April and May 2020 upon application. The amount of the subsidy is set against the value of the minimum wage established by the Government Decision on Setting the Minimum Wage (Official Gazette of Montenegro 33/19), by determining the amount of taxes and contributions proportionate to the earnings, and no more than 100% of taxes and contributions on the minimum wage and 100% of the net minimum wage for company employees registered in February 2020.</p> <p>Thus the subsidy is granted to entrepreneurs and employee earnings for which the employer, which pays taxes and contributions according to the actual income or as a lump sum, has filed the GPPF return for 2018 or 2019, then the ZPO return for 2020 and paid the advance payments in 2019. The subsidy is granted for the employees in a company registered in February 2020 and for whom the IOPPD return was filed with the tax administration ending with the month for which the subsidy application is filed and if the company has paid payroll taxes and contributions owed in 2019. The business entities which are at the time of application regularly meeting their rescheduled tax liabilities under the Law on Tax Liabilities Rescheduling (Official Gazette of Montenegro 83/16) are also eligible for subsidies for employee earnings. Additionally, a business entity is eligible for subsidies if it does not downsize the workforce for the duration of the measure compared to the number of employees registered in February 2020.</p>
2	SUBSIDIES FOR THE TOURIST SECTOR (List 2 - 7 activity codes)
	Subsidies are granted to entrepreneurs and MSMEs in tourist businesses whose work is not suspended, but whose level of activity is considerably reduced as a result of the orders issued by the Ministry of Health with the aim of containing the novel coronavirus outbreak. No more than 100% of taxes and contribution on the minimum wage and 100% of the net minimum wage for the company employees registered in February 2020.

3	<p>SUBSIDIES FOR AFFECTED ACTIVITIES (List 3 - 105 activity codes)</p>
	<p>Entrepreneurs and MSMEs in lines of business where work is not suspended, but whose level of activity is considerably reduced as a result of the orders issued by the Ministry of Health with the aim of containing the novel coronavirus outbreak are eligible, upon application, for subsidies of gross employee earnings for the months of April and May 2020.</p> <p>The following are not eligible for the subsidy: state institutions, local self-governments, and companies where the government or a municipality holds a majority stake, as well as companies whose main activity codes are listed in Appendix 3. The subsidy is provided in an amount equal to 50% of taxes and contributions on the minimum wage and 50% of the net minimum wage for company employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer.</p> <p>As for the five newly added healthcare institutions and companies, which made their accommodation facilities available for mandatory quarantine, the subsidy will amount to 100% of the net minimum wage.</p>
4	<p>SUBSIDIES FOR NEW EMPLOYMENT</p>
	<p>Subsidies are granted to business entities which:</p> <ul style="list-style-type: none"> • did not downsize the number of employees compared to February 2020 • register new employees in the period of six months starting from 1 April 2020 (who were not registered as employed with the same entity in January or February 2020) and who were at the same time registered unemployed with the National Employment Office in the month preceding the month when the application was filed <p>The maximum number of employees eligible for this subsidy equals the difference in the number of employees in the month for which the application is filed and the number of employees registered in February 2020. The subsidy is provided in an amount equal to 70% of taxes and contributions on the minimum wage and 70% of the net minimum wage. The difference up to the full gross salary of the employee is provided by the employer.</p>
5	<p>SUBSIDIES FOR THE EARNINGS OF EMPLOYEES ON PAID LEAVE</p>
	<p>An entrepreneur or a company whose employee is on paid leave for the care of a child under 11 years of age is eligible, upon application, for subsidies to gross salary for those employees. The subsidy is provided in an amount equal to 70% of taxes and contributions on the minimum wage and 70% of the net minimum wage in the given company for employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer. The following are not eligible for the subsidy: state institutions, local self-governments, and companies in which the government or a municipality holds a majority stake. The subsidy is provided for the period for which the employee exercised the right to be on paid leave, upon the employer's application.</p>
6	<p>SUBSIDIES FOR THE EARNINGS OF EMPLOYEES WHO ARE QUARANTINED OR IN ISOLATION</p>
	<p>An entrepreneur or a company whose employee is quarantined or in isolation on the orders of the Ministry of Health with the aim of containing the outbreak is eligible, upon application, for subsidies to gross salary for those employees. Up to 70% of the net minimum wage in the given company for employees registered in February 2020. The difference up to the full gross salary of the employee is provided by the employer. State institutions and local self-governments are not eligible.</p>

II.	SPECIAL SUPPORT MEASURES FOR AGRICULTURE AND FISHERIES
7	MARKET INTERVENTIONS
	<p>In order to maintain the current level of production and market stability, both in terms of the prices and in terms of the quantities offered in agricultural produce (livestock, dairy, fruit and vegetables, etc.) and the fisheries and aquaculture product market, and maintain a stable income for farmers and fishermen, a special Market Intervention Programme is introduced to mitigate the impact of the COVID-19 crisis. The programme includes the following measures:</p> <ul style="list-style-type: none"> • Withdrawal and storage of agricultural, fisheries, and aquaculture product surpluses, and assistance in the distribution of products by business entities that possess the proper conditions for that purpose; • Support for farmers, fishers, and fish farmers and processors due to market disturbances caused by substantial price drops and with the aim of maintaining price and income stability; • Support for the incomes of farmers, fishers, fish farmers, and processors due to the inability to market their products, and the accumulation of surpluses with the loss of markets for products which cannot be distributed or due to produce deterioration; • Making surpluses available to public institutions (hospitals, residential care centres, etc.), the Red Cross, and others, with the reimbursement of producers of an amount equal to 100% of the product's market value. <p>Depending on the circumstances and problems that hit individual sectors, respecting the specificities of production, marketing, etc., some of the above market intervention measures will be launched.</p> <p>With a special regulation, the Ministry will set the terms for launching a required measure.</p> <p>In addition to the above measures, the Ministry may adopt an additional set of measures with the aim of maintaining continuity of production and purchase, and performing all the activities linked with the smooth production and distribution of agricultural, fisheries, and aquaculture products, given the particular sensitivity of such markets, the specific production conditions, and possible disturbances in the international and domestic markets which may occur as a result of COVID-19, currently unforeseeable.</p>
8	ONE-OFF ASSISTANCE FOR COMMERCIAL FISHERS, HOLDERS OF A COMMERCIAL FISHING LICENCE
	<p>In Montenegro 184 fishers with valid licences engage in commercial fishing. With the closing down of hospitality establishments and the scaling down of farmers' markets, the livelihood of commercial fishers, their employees, and families is very much at stake. Thus, one-off assistance for all commercial fishers who are holders of valid commercial fishing licences is proposed. The assistance amount will be defined based on the day catches entered into the Fishing IT system in 2019. Alongside the assistance, public calls for an agro-budget continue. Funds needed: €200,000.</p>
9	SUPPORT FOR PURCHASING DOMESTIC PRODUCE

	During the COVID-19 pandemic and subsequent recovery, and aiming to ensure safer procurement of agricultural and food products, the public contracting authorities will particularly take care regarding the freshness and seasonal character of produce and the transportation time, to ensure as short as possible a supply chain and to reduce the environmental impacts. Affirmation of the food safety principle. Other contracting authorities are also recommended to observe the same principles.
10	SUPPORT FOR PAYING CONTRIBUTIONS TO BENEFICIARIES INSURED ON THE BASIS OF AGRICULTURAL ACTIVITY
	The Ministry of Agriculture and Rural Development will pay all contributions for farmers, both those borne by the budget and those borne by the insured person for a period of six months. A total of 529 insured persons who regularly pay their contributions will be covered. Funds needed: €100,000.
11	ONE-OFF ASSISTANCE FOR BENEFICIARIES OF OLD-AGE BENEFITS
	The Law on Agriculture and Rural Development envisages that the heads of agricultural holdings are entitled, under specific terms, to old-age benefits. Most households of this type engage in agriculture in rural areas and keep villages alive. The beneficiaries of old-age benefits will receive a one-off additional benefit of €64. Funds needed: €225,000.
12	SUPPORT FOR TIMELY SETTLEMENT OF LIABILITIES TO PRODUCERS BY TRADE COMPANIES
	In order to reduce payment times, the IDF will create a new credit line that will enable trade companies to make payments to domestic producers within 15 days.
13	FAVOURABLE CREDIT LINE FOR AGRICULTURE AND FISHERIES
	<p>The IDF will create a new credit line to support registered agricultural producers, processors, commercial fishers and holders of aquaculture/mariculture licences. The IDF already has four credit lines intended for agriculture on its portfolio, which are investment-oriented and serve the IPARD pre-financing purposes, agro-budget measures, and the purchase of agricultural produce, so this credit line is intended for registered agricultural producers, processors, commercial fishers, and holders of aquaculture/mariculture licences with the aim of mitigating the consequences of the COVID-19 crisis through the procurement of current assets needed for smooth production. By way of reminder, the IDF has already given the option of suspending the repayment of existing loans for a period of three months. The terms of the loans for current assets:</p> <ul style="list-style-type: none"> - Maximum amount €20,000.00; - Annual interest rate of 1.50% using the proportional calculation method - Repayment period of up to 2 years (including grace period); - Grace period of up to one year <p>Eligible loan holders – registered agricultural producers, processors, commercial fishers, and holders of aquaculture/mariculture licences. Loan purpose – procurement of current assets, raw materials, inputs, and semi-products in order to establish new production or maintain existing production.</p>
14	SUBSIDIZED INTEREST FOR THE NEW IDF CREDIT LINE INTENDED FOR AGRICULTURE AND FISHERIES
	For all beneficiaries of the IDF credit line to support agriculture and fisheries, interest will be subsidized for the duration of the grace period. The funding required for this measure: €150,000.

15	ADVANCE PAYMENT OF 80% OF THE TOTAL SUPPORT PER HEAD OF CATTLE, SHEEP, GOAT, AND PIG AND PER HECTARE OF FARMING LAND
	Based on the payment list from 2019 and the data held in the relevant registries of the Ministry. The advance payment on this account would amount to some €3,500,000 and would be implemented in the first half of May, much earlier than in previous years. The advance payment of a share of premiums provides additional certainty for agricultural producers and gives an incentive to continue production. The funds needed for implementing this measure will be secured from the agro-budget appropriations for this purpose, amounting to €3,500,000.
III.	MEASURES CONCERNING TAXES, CUSTOMS, AND SALARIES
16	FACILITIES TO BOOST LIQUIDITY
	<p>The facilities to boost liquidity by reducing VAT refund times and extending the customs guarantee exposure limit period for the deferred payment of customs debt. As regards VAT refunds, the Tax Administration needs to undertake all the statutory measures to examine how well-founded the refund application is and, accordingly, refund the VAT within no more than 45 days from the application. If a taxpayer has outstanding tax liabilities that are due, these will be settled against the VAT credit, and the remainder will be refunded within the time envisaged.</p> <p>In addition, customs debtors whose activity was suspended on account of COVID-19, and with the aim of boosting liquidity, need to be enabled to defer customs debt payments for 60 days from the moment of accepting the customs declaration, upon the debtor's application.</p>
17	CREATING ADDITIONAL FISCAL SPACE FOR IMPLEMENTING GOVERNMENT MEASURES
	With the aim of creating additional fiscal space for implementing government measures to support businesses and individuals and foster public finance consolidation, a reduction in salaries of public administration employees categorized A and B as referred to in Articles 22, 23, and 24 of the Law on Salaries in the Public Sector is proposed for a period of two months by adopting the Decision on the Calculation Values of the Quotient for Public-Sector Employees for the Fiscal Year 2020. The quotient value went down from €90 to €45. This is expected to result in savings of approximately €400,000 a month, or €800,000 in total.
18	FINANCIAL SUPPORT INSTRUMENTS
	New IDF credit lines need to be designed so as to be complementary to the government measures. In order to put in place the preconditions for proper measure implementation, the IDF 2020 Work Plan is in need of adjustment to the current reality of the COVID-19 pandemic by including the designation "urgent liquidity support for MSME&Es to respond to the adverse impacts of the COVID-19 pandemic", and streamlining credit clearance procedures in cooperation with the CBCG.
19	SUSPENSION OF ENFORCEMENT WITH A VIEW TO THE SOCIAL AND ECONOMIC PROTECTION OF BUSINESS ENTITIES OPERATING IN SECTORS WHOSE WORK WAS SUSPENDED ON THE ORDERS OF THE MINISTRY OF HEALTH AIMED AT CONTAINING THE OUTBREAK

	<p>This measure will further contribute to the social protection of individuals and of the economic vitality of businesses during the COVID-19 crisis. By deferring enforcement for a period of time, which in terms of the Law on Enforcement and Security may be set to up to one year, at the request of the judgment creditor, will provide for additional protection of individuals whose accounts are subject to enforcement, particularly those whose salary or pension benefits are subject to enforcement, and those where enforced collection is set against their property, while the deferral of payment of judgment debtor liabilities will increase their economic power and help overcome adverse COVID-19 impacts.</p>
IV.	<p>AN ADDITIONAL MEASURE FOR THE TOURIST SECTOR</p>
20	<p>DECISION ON BILLING ELECTRICITY WHILE THE COVID-19 CONTAINMENT MEASURES ARE IN FORCE</p>
	<p>Between 1 April and 30 June 2020, the fixed part of the electricity bill will not be charged to entrepreneurs and businesses operating in the tourist industry, as well as those whose operations were suspended on the orders of the Ministry of Health aimed at COVID-19 containment.</p>
V.	<p>SOCIAL POLICY</p>
21	<p>SOCIAL BENEFITS AS A PART OF THE SECOND PACKAGE OF GOVERNMENT MEASURES</p>
	<ul style="list-style-type: none"> • One-off assistance worth €50 for those registered unemployed on 31 March of the current year who are not entitled to unemployment benefits or cash allowances, either as beneficiaries or members of a family recipient of family cash allowance. • The Montenegrin Pension and Disability Fund pays out 13,819 proportionate pensions, i.e. pension benefits for beneficiaries who acquired the right partly in Montenegro and partly in other countries with which Montenegro signed international agreements to that effect; 5,767 benefits are paid in Montenegro, of an average amount of €82.81. The beneficiaries whose proportioned benefits from Montenegro and the respective other country combined does not exceed the minimum pension benefit of €128.82 were identified and granted one-off assistance for pensioners worth €50. • EPCG announces subsequent measures: 1. Vulnerable customers currently entitled to a 50% discount will be granted an additional discount of an equal amount to avoid having any electricity costs for the duration of the measure; 2. The subsidy amount currently available will be doubled, at the EPCG's own expense; 3. The termination of all Debt Settlement Protocols will be postponed.

4. The third package of measures to mitigate the impact of the COVID-19 crisis in Montenegro: 23 July 2020

SHORT-TERM MEASURES

MEASURE 1: Subsidised interests for rescheduled and new loans	MEASURE 2: Favourable credit lines	MEASURE 3: Tax reliefs	MEASURE 4: Subsidies on employee earnings	MEASURE 5: Grants for businesses	MEASURE 6: Defined investment structure and schedule by sector	MEASURE 7: Support to vulnerable groups	MEASURE 8: Creating additional fiscal space
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LONG-TERM MEASURES

The development concept offering a new view of tapping into domestic resources towards sustainable development



DIGITAL TRANSFORMATION

IT industry Montenegro opens up new opportunities	Sustainable tourism Towards new realities	Agriculture, fisheries and food production The concept of quick breakthroughs	Environment friendly industry and energy Remediation and development measures
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Development principles sustainable development; science and innovation; balanced regional development; green transition (decarbonisation); investments in human capital through education and more substantial participation of women and youth in delivering on development priorities

Key instruments for creating an environment conducive to the achievement of development priorities:

- Favourable credit lines; the relief of fiscal and para-fiscal burden
- Centres for S3 education and counselling for enterprises
- Education and Innovation Centre with virtual and augmented reality technologies



CIRCULAR CHANGE

AN OVERVIEW OF THE ENTIRE FINANCIAL FRAMEWORK OF THE THIRD PACKAGE OF MEASURES

	2020.	2021.	2022.	2023.	2024.	TOTAL
SHORT-TERM MEASURES	82.700.000	31.600.000	9.050.000	2.000.000	2.000.000	127.350.000
Support for tourist businesses	50.950.000	26.100.000	6.300.000			83.350.000
Incentives for agriculture, agri-industry and	750.000	1.500.000	750.000			3.000.000
Fostering competitiveness	10.000.000	2.000.000	2.000.000	2.000.000	2.000.000	18.000.000
Subsidies for employee earnings	4.200.000					4.200.000
One-off assistance for vulnerable groups	1.800.000					1.800.000
Creating additional fiscal space	15.000.000	2.000.000				17,000,000
MEDIUM-TO-LONG-TERM MEASURES	198.527.000	178.254.860	123.495.630	68,483,630	524,969,630	1,093,730,750
Reinforcing IT businesses	827.000	1.046.815	25.995.630	983,630	969,630	29,822,705
Support for the tourist industry	100.000.000	9.700.000	7.500.000	7.500,000	7,000,000	131,700,000
The concept of quick breakthroughs in agriculture and fisheries		44.900.000	35.200,000	8,200,000	1,200,000	89,500,000
Economic measures for recovery and development	96.700.000	100.300.000	36,800,000	33,800,000	515,800,000	783,400,000
Support for the transport industry		10.508.045				10,508,045
TOTAL	281.227.000	209,854,860	132,545,630	70,483,630	526,969,630	1,221,080,750

